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APRIL 1975

THE GREAT DEPRESSION

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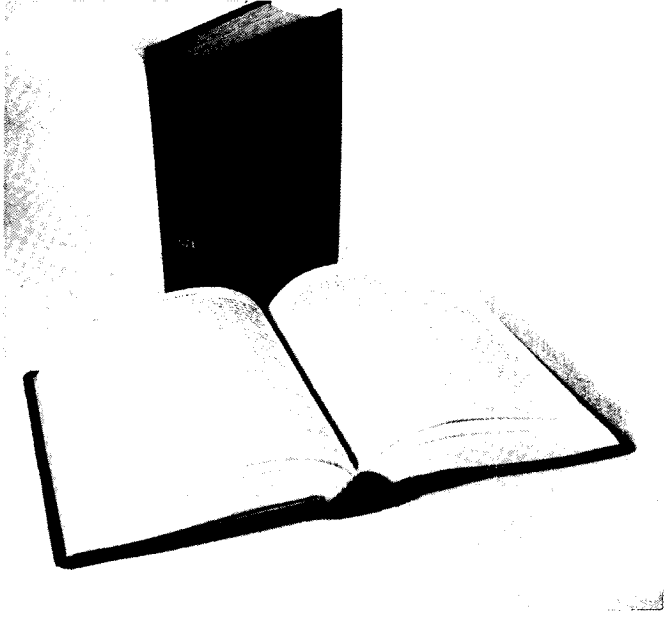

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OCCUPATIONAL LICENSURE UNDER ATTACK

MELVIN D. BARGER

OCCUPATIONAL licensure, often viewed as a panacea for a host of economic problems, has been taking some bad lumps lately from individuals who would ordinarily advocate more of it. Their criticism is not likely to create pressures for the immediate abolition of licensing, but it does tend to prove that licensing's longtime critics, such as the economist Milton Friedman, know what they are talking about.

The Wall Street Journal recently brought the licensing dilemma to the attention of its influential audience with a front page story about state licensing boards, which many believe are closed societies that exist to limit competition and to serve the interests of producer groups. The Federal Trade Commission chairman was quoted as saying that occupation licensing hasn't prevented fraud, incompetence, or price gouging, while a U.S. Labor Department study of state licensing boards concluded that in general they are "riddled with faults . . . fraught with cha otic and inequitable rules, regulations and requirements and prone to restrictive and exclusionary practices as a result of pressures exerted by special-interest groups . . ." The FTC study also showed that Louisiana, which licenses television repairmen, has about the same incidence of fraud as, and 20 per cent higher prices on TV repairs than, does the District of Columbia, where repairmen are not licensed.[1]

Reports of this kind must surely rock the faith of individuals who have believed, for seemingly plausible reasons, that licensing protects the consumer from fraud-

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[1] Article by Jim Montgomery, *The Wall Street Journal*, January 8, 1975.

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ulent, unethical, or incompetent practitioners of professions and trades. There has always been something reassuring about the medical license that one sees while getting an examination, or the state license that hangs behind every barber's chair. Ask the physician or the barber about his license, and you'll probably get patronizing reminders that "licensing keeps the quacks out of medicine and the deadbeats out of barbering." The member of a licensed group is likely to treat the licensing of his own occupation as a closed subject – as something that is so obviously beneficial that the licensing practice itself is above question or review.

Evidently, however, licensing is not a closed subject to individuals who are beginning to examine the trade practices of certain groups and to notice a correlation – as in the Louisiana TV repair case – between licensing and high rates. Many of the new critics of licensing, it should be noted, are advocates of other forms of state intervention and propose to reform licensing by changing the composition of state boards or by revising licensing regulations. Hence their criticism is not, at this stage, a true victory for the free market place, but it does show that the licensing issue is far from a closed subject. The disenchantment with present forms of occupational licensure may also have the healthy effect of discouraging the extension of licensing to occupations not currently covered.

Capitalism and Freedom

Milton Friedman, in his excellent book *Capitalism & Freedom*,[2] offers an analysis of occupational licensure that virtually foretells all of the present criticisms of licensing. He reviews all the arguments that are usually given in advocacy of licensure, and shows how pressures are created to produce licensing that effectively protects the producer groups from competition and makes entry to the field more difficult for persons who might otherwise challenge the practices and pricing arrangements of the current practitioners. Friedman says that licensure

> almost inevitably becomes a tool in the hands of a special producer group to obtain a monopoly position at the expense of the rest of the public. There is no way to avoid this result. One can devise one or another set of procedural controls designed to avert this outcome, but none is likely to overcome the problem that arises out of the greater concentration of producer than of consumer interest. The people who are most concerned with any such arrangement, who will press

[2] The University of Chicago Press, Chicago, 1962.

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most for its enforcement and be most concerned with its administration, will be the people in the particular occupation or trade involved . . . Once licensure is attained, the people who might develop an interest in undermining the regulations are kept from exerting their influence. They don't get a license, must therefore go into other occupations, and will lose interest. The result is invariably control over entry by members of the occupation itself and hence the establishment of a monopoly position.[3]

In demolishing the case for licensing, Friedman examined the licensing of medical doctors, deliberately choosing this field because it is in medicine where the strongest arguments would seem to exist for licensing. He showed that the practice of medicine is by no means a sacred institution that ought to be above the market place. There are many economical ways that medical services could be delivered if occupational licensure hadn't been used to give the producer group control over the field and control of hospitals. The method of controlling entry to the practice of medicine has been simple but almost foolproof: Every applicant for a medical license must be a graduate of an approved medical school; hence it is easy to control entry to the field by deciding who should be permitted to attend medical schools. Other licensed professions have been moving in the same direction, but few have been able to restrict entry as successfully as have medical doctors. (Friedman offered as an amusing example the legal profession, which would like to eliminate night law schools, but had so far been blocked because many state legislators themselves were graduates of these schools!)

Scare Tactics

Whenever an individual questions the matter of medical licensing, he is likely to be immediately asked if he wants to have incompetent bunglers or outright charlatans dispensing medical care to his loved ones. But this is nothing more than a scare tactic. Friedman stopped short of attempting to describe all the ways medical care might be provided in a completely free market place, but he offered convincing proof that we would undoubtedly have available many forms and levels of service, some of it provided by skilled medical teams and others by individual private practitioners. Compared with the current system, we would have superior medical care and at lower cost, with more individuals involved in providing the various services needed by the patients. The present system of providing medical

[3] *Ibid.*, page 148.

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care has been so restricted by the intervention of occupational licensure that it is almost impossible to demonstrate what things would be like if the free market had been allowed to prevail.

The arguments against occupational licensure become even more convincing (and less emotionally charged) when one turns to fields other than medicine. Any individual can easily prove to his own satisfaction that licensure results in higher rates by checking the costs of plumbing and electrical services in his own area. In many communities, plumbers and electricians are licensed by the city, while unlicensed technicians are permitted to work in the adjoining townships and rural areas. It is not unusual to have extremely high rates in the licensed areas existing alongside moderate rates in the unlicensed areas. Do the customers in the unlicensed areas receive a lower quality of plumbing and electrical services as a result of hiring unlicensed workmen? This question can be answered fairly only by the individual customers, but it is possible to find unlicensed plumbers and electricians who have a high level of skill and, at the same time, licensed members of the same crafts who are mediocre and sometimes even incompetent.

It should not be necessary, however, to evaluate individual practitioners in order to question the entire practice of occupational licensure. The customer himself should be the supreme judge of who is competent to perform the services he requires. If the members of a trade or profession believe that certain standards or practices are considered desirable in their field, they ought to have a right to publicize this fact and even to urge customers to accept such standards and practices before making service commitments. But it is wrong to use the police power of the state to make the views of a producer group binding upon all people within the occupation and upon all customers. There is, in every field, a great deal of personal opinion about what is necessary for good service and what constitutes acceptable practice.

Fraud and Incompetence

The arguments favoring licensing invariably focus either on fraud or on incompetence. The champion of the free market is at a great disadvantage if he attempts to argue that a free market place will be *completely* free of fraud and that *all* incompetent practitioners will fail to attract customers and will go out of business. Rather, he should point out that general laws pertaining to fraud, if properly enforced by the

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state, will protect the consumer; however, the consumer also has a personal responsibility to exercise prudence in the market place. For that matter, most people in a community quickly learn who the bunglers and deadbeats are. In any case, there is little evidence that licensing protects the consumer from fraudulent or deceitful practices.

One also receives scant assurance of competence under a licensing system. For one thing, we are never sure that a test has been devised to determine the abilities of individuals to perform certain tasks. It is notorious that some people are good test-takers, for example, but fail dismally in the practical application of the knowledge they are supposed to possess. Experience in the field can be a helpful guide, but it is not infallible.

The tendency of licensing to prevent people from entering a field also means that incompetent people who have somehow managed to obtain a license will probably attract business that would have flowed to a worthier competitor if the free market had been permitted to operate. If this is thought to be a far-fetched argument, one should get to know about medical doctors in a typical city. He will learn that a medical society with 75 to 100 members probably has several doctors who are considered extremely marginal by their fellow doctors. Yet, because of the scarcity of doctors, these incompetents not only have large practices but may earn sizable incomes. Far from protecting people from incompetence, occupational licensure in this case has all but forced it on the unsuspecting public.

Building Trades

Occupational licensure can also take other forms. A building trades union card certainly has all the characteristics of a government license, despite the fact that a private trade union rather than the state or Federal government issues the card. In this case, the Federal government, through its labor legislation, virtually licenses individual unions to act as bargaining agents for all the workmen in a certain field or industry. Armed with this Government-granted power, the union is then free to decide who should be permitted to acquire journeyman status in various trades such as carpentry, bricklaying, and pipefitting. It is not difficult for a young person with the proper attitudes and motivation to learn any of these trades, but it often seems easier to swim the Atlantic than to be accepted for apprenticeship in some building trades or to obtain

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a union card even when one has the proper training and experience. Not surprisingly, wages in the building trades are at very high levels, and unions can demand future increases with the confidence of monopolists who know that they will not be challenged in the market place.

Like most monopolists, the building trades unions have been accused of abusing their power, i.e., their exclusive licenses. One of the most bitter complaints against the building trades in recent years has focused on their longtime exclusion of blacks and other minorities from apprenticeship programs. But the civil rights activists who criticized this practice should have challenged the right of *any* group to control entry to a field, rather than merely complaining because certain individuals were being excluded. A free competitive market place in the building trades would have found room for qualified individuals from *every* group. It is indeed one of the ironies of history that Booker T. Washington urged blacks to learn bricklaying rather than Greek philosophy in order to get ahead, but in our own time it has been easier for a black to become a teacher than to obtain a position as a union bricklayer!

We can also wonder if this union licensing power has not created a form of occupational licensure in fields where it challenges basic First Amendment rights. At times, legislators have suggested that newspaper writers should be licensed as a means of "protecting the public." Newsmen are quick to reply that only a free and unlicensed press can protect the public from Government corruption and the venality of legislators. Meanwhile, however, the newspaper guilds continue to strengthen their controls over many news staffs and have now been able to decide who should be permitted to write certain types of news stories. An editor, as an executive, may find himself in trouble with the guild if he writes and publishes in his paper a story that presumably could have been written by guild members. Pressures are also developing to bar newspapers from buying freelance articles. In other words, newspaper guilds are acquiring the power of licensing boards and can quietly use this power to eliminate competition while appearing to stand for a free and uncontrolled press.

There are undoubtedly other forms of licensure that bear watching. Teacher certification is obviously a type of licensing, particularly now that it is used in harness with membership in the powerful teachers' unions. Any kind of certification program that

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eventually calls upon the power of the state to control access to a field is occupational licensing and usually is an attempt to win a favored position for the people already in the field.

There have also been many proposals in the past few years to require licensing of automobile mechanics as a means of eliminating bad repair practices. Actually, we are fortunate that automobile repair has been a field that anyone can enter. If an auto mechanics' licensing program ever is adopted, we can expect ruinously high repair charges from "certified" technicians while most of the bad repair and pricing practices now under attack will become institutionalized as part of the system.

Alternative?

What should we have in place of occupational licensure? *The Wall Street Journal* article said that "few would quarrel with the need for (some) . . . supervision to guard the public against unscrupulous charlatans posing as certified professionals." But should there be any such supervision? The public has actually fared very well without certification in hundreds of occupations that are vital to the welfare and happiness of many people. It is not necessary to obtain an occupational license in order to be a corporation president, a chef, a salesman, or a writer. Under today's licensing requirements, Thomas Edison could not have been certified as an engineer, Abraham Lincoln would have been barred from the practice of law, and Albert Einstein could not have been even a high school science teacher; yet each served us well in his own field.

Any of us, if he thinks for himself and exercises good judgment, can still function far better in choosing a professional person or skilled tradesman than can any licensing board. The state also has a general duty to protect against fraud, and this cannot be delegated to a licensing board. Our own good judgment, coupled with reasonable enforcement of the proper laws, will help protect us from the fraudulent and the incompetent. But who will save us from the greater fraud of occupational licensure as it is now practiced?

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Modern Soothsayers

BERNARD H. SIEGAN

IT IS exceedingly hazardous to decide current policy on speculations about the distant future. We already encounter enough difficulty simply trying to understand the here and now.

Although these observations may appear self-evident, many apparently disagree. They urge the adoption of restrictive laws over human conduct on the basis of their predictions of the future. They are our modern soothsayers, and their prophecies are widely disseminated these days, in the learned as well as the unlearned journals. The universities are filled with them where they are often called scholars.

I find two things particularly disturbing: First, the advocacy of certain environmental and conservation measures for the sake of "generations yet unborn." Second, forecasts of what materials and resources will be available to future generations.

In the absence of special occult powers, it is rather foolish to describe the wants and desires of people who still have not arrived on this earth, the unborn generations. How many parents can know the course any of their children, whom they observe daily, will follow?

Such forecasting is usually part of some discussion pushing severer environmental regulations, and the world these writers and speakers contend the unborn will want usually is no different from the one they seek for themselves. What it amounts to essentially, is that they are talking about only their own desires and preferences, not anyone else's.

Of course, our children should inherit the best of all possible worlds, and it should include clean air and water, beaches, parks, open space, scenic areas. But it should also be one of good living and economic conditions; jobs, desirable housing conditions and fewer slums, among other things.

Tomorrow's children will be stronger in body and mind if the economic circumstances of their parents and grandparents are satisfactory. The world they inherit also will be infinitely superior if it is a freer one, without govern-

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ment coercions stifling its citizens' aspirations. Accordingly, these discussions of the future are really about the present, the needs and priorities of our own society.

Similarly many writers are mixing in much of their own feelings and inclinations when they demand strong conservation controls over our resources to prevent depletions in the future. These people frequently are hostile to technology and materialism, and would prefer a world more oriented to nature. They tend to ignore the problems that would be created for those having a different perspective.

It is impossible to foretell the future on the basis of what exists today. The story of Reverend Thomas Malthus needs frequent retelling. He was a prominent British economist and sociologist, who predicted in 1798 that the food supply would not keep pace with population growth, and consequently the world was doomed to widespread starvation, poverty and distress.

Although his analysis seemed plausible in light of the information then available, his fundamental error was in making a prediction on that subject. No matter how wise he was, he could not have envisioned that man would be so resourceful that a time would come when a government would pay farmers billions of dollars not to grow crops.

We enjoy vastly more material comforts than our great-grandparents did because of human skill, ingenuity and creativity. The basic resources of the world have dwindled since then, but the knowledge and understanding of how to obtain, amplify and substitute for them has increased enormously. So long as incentives exist, man's wisdom will operate to create the new and improve the old.

Historical experience discloses that substitutes or new products normally replace essential materials and resources as they become scarcer, and that when necessary, man will adjust reasonably well to a reduction in the supply of particular items. To live a life of self-sacrifice based on other premises is an abuse of a precious organism: Man. Who not very long ago would have conceived of antibiotics, space travel, atomic energy, synthetic fabrics, plastics, TV, computers, lasers, jet propulsion?

To accommodate the modern soothsayers requires considerable inconvenience and hardship, especially on the part of the less affluent who depend for a better life on more production and growth. Soothsayers preaching such human sacrifice should lose their licenses.

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HANS F. SENNHOLZ

THE GREAT DEPRESSION

ALTHOUGH the Great Depression engulfed the world economy some 40 years ago, it lives on as a nightmare for individuals old enough to remember and as a frightening specter in the textbooks of our youth. Some 13 million Americans were unemployed, "not wanted" in the production process. One worker out of every four was walking the streets in want and despair. Thousands of banks, hundreds of thousands of businesses, and millions of farmers fell into bankruptcy or ceased operations entirely. Nearly everyone suffered painful losses of wealth and income.

Many Americans are convinced that the Great Depression reflected the breakdown of an old economic order built on unhampered markets, unbridled competition, speculation, property rights, and the profit motive. According to them, the Great Depression proved the inevitability of a new order built on government intervention, political and bureaucratic control, human rights, and government welfare. Such persons, under the influence of Keynes, blame businessmen for precipitating depressions by their selfish refusal to spend enough money to maintain or improve the people's purchasing power. This is why they advocate vast governmental expenditures and deficit spending – resulting in an age of money inflation and credit expansion.

Classical economists learned a different lesson. In their view, the Great Depression consisted of four

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consecutive depressions rolled into one. The causes of each phase differed, but the consequences were all the same: business stagnation and unemployment.

The Business Cycle

The first phase was a period of boom and bust, like the business cycles that had plagued the American economy in 1819-20, 1839-43, 1857-60, 1873-78, 1893-97, and 1920-21. In each case, government had generated a boom through easy money and credit, which was soon followed by the inevitable bust.

The spectacular crash of 1929 followed five years of reckless credit expansion by the Federal Reserve System under the Coolidge Administration. In 1924, after a sharp decline in business, the Reserve banks suddenly created some $500 million in new credit, which led to a bank credit expansion of over $4 billion in less than one year. While the immediate effects of this new powerful expansion of the nation's money and credit were seemingly beneficial, initiating a new economic boom and effacing the 1924 decline, the ultimate outcome was most disastrous. It was the beginning of a monetary policy that led to the stock market crash in 1929 and the following depression. In fact, the expansion of Federal Reserve credit in 1924 constituted what Benjamin Anderson in his great treatise on recent economic history (*Economics and the Public Welfare,* D. Van Nostrand, 1949) called "the beginning of the New Deal."

The Federal Reserve credit expansion in 1924 also was designed to assist the Bank of England in its professed desire to maintain prewar exchange rates. The strong U.S. dollar and the weak British pound were to be readjusted to prewar conditions through a policy of inflation in the U.S. and deflation in Great Britain.

The Federal Reserve System launched a further burst of inflation in 1927, the result being that total currency outside banks plus demand and time deposits in the United States increased from $44.51 billion at the end of June, 1924, to $55.17 billion in 1929. The volume of farm and urban mortgages expanded from $16.8 billion in 1921 to $27.1 billion in 1929. Similar increases occurred in industrial, financial, and state and local government indebtedness. This expansion of money and credit was accompanied by rapidly rising real estate and stock prices. Prices for industrial securities, according to Standard & Poor's common stock index, rose from 59.4 in June of 1922 to 195.2 in September of 1929. Railroad stock

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climbed from 189.2 to 446.0, while public utilities rose from 82.0 to 375.1.

A Series of False Signals

The vast money and credit expansion by the Coolidge Administration made 1929 inevitable. Inflation and credit expansion always precipitate business maladjustments and malinvestments that must later be liquidated. The expansion artificially reduces and thus falsifies interest rates, and thereby misguides businessmen in their investment decisions. In the belief that declining rates indicate growing supplies of capital savings, they embark upon new production projects. The creation of money gives rise to an economic boom. It causes prices to rise, especially prices of capital goods used for business expansion. But these prices constitute business costs. They soar until business is no longer profitable, at which time the decline begins. In order to prolong the boom, the monetary authorities may continue to inject new money until finally frightened by the prospects of a run-away inflation. The boom that was built on the quicksand of inflation then comes to a sudden end.

The ensuing recession is a period of repair and readjustment. Prices and costs adjust anew to consumer choices and preferences. And above all, interest rates readjust to reflect once more the actual supply of and demand for genuine savings. Poor business investments are abandoned or written down. Business costs, especially labor costs, are reduced through greater labor productivity and managerial efficiency, until business can once more be profitably conducted, capital investments earn interest, and the market economy function smoothly again.

After an abortive attempt at stabilization in the first half of 1928, the Federal Reserve System finally abandoned its easy money policy at the beginning of 1929. It sold government securities and thereby halted the bank credit expansion. It raised its discount rate to 6 per cent in August, 1929. Time-money rates rose to 8 per cent, commercial paper rates to 6 per cent, and call rates to the panic figures of 15 per cent and 20 per cent. The American economy was beginning to readjust. In June, 1929, business activity began to recede. Commodity prices began their retreat in July.

The security market reached its high on September 19 and then, under the pressure of early selling, slowly began to decline. For five more weeks the public nevertheless bought heavily on the way down. More than 100 million shares were traded at the New York Stock Ex-

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change in September. Finally it dawned upon more and more stockholders that the trend had changed. Beginning with October 24, 1929, thousands stampeded to sell their holdings immediately and at any price. Avalanches of selling by the public swamped the ticker tape. Prices broke spectacularly.

Liquidation and Adjustment

The stock market break signaled the beginning of a readjustment long overdue. It should have been an orderly liquidation and adjustment followed by a normal revival. After all, the financial structure of business was very strong. Fixed costs were low as business had refunded a good many bond issues and had reduced debts to banks with the proceeds of the sale of stock. In the following months, most business earnings made a reasonable showing. Unemployment in 1930 averaged under 4 million, or 7.8 per cent of labor force.

In modern terminology, the American economy of 1930 had fallen into a mild recession. In the absence of any new causes for depression, the following year should have brought recovery as in previous depressions. In 1921-22 the American economy recovered fully in less than a year. What, then, precipitated the abysmal collapse after 1929? What prevented the price and cost adjustments and thus led to the second phase of the Great Depression?

Disintegration of the World Economy

The Hoover Administration opposed any readjustment. Under the influence of "the new economics" of government planning, the President urged businessmen *not* to cut prices and reduce wages, but rather to increase capital outlay, wages, and other spending in order to maintain purchasing power. He embarked upon deficit spending and called upon municipalities to increase their borrowing for more public works. Through the Farm Board which Hoover had organized in the autumn of 1929, the Federal government tried strenuously to uphold the prices of wheat, cotton, and other farm products. The GOP tradition was further invoked to curtail foreign imports.

The Hawley-Smoot Tariff Act of June, 1930, raised American tariffs to unprecedented levels, which practically closed our borders to foreign goods. According to most economic historians, this was the crowning folly of the whole period from 1920 to 1933 and the beginning of the real depression. "Once we raised our tariffs," wrote Benjamin Anderson, "an irresistible movement all over the world to

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raise tariffs and to erect other trade barriers, including quotas, began. Protectionism ran wild over the world. Markets were cut off. Trade lines were narrowed. Unemployment in the export industries all over the world grew with great rapidity. Farm prices in the United States dropped sharply through the whole of 1930, but the most rapid rate of decline came following the passage of the tariff bill." When President Hoover announced he would sign the bill into law, industrial stocks broke 20 points in one day. The stock market correctly anticipated the depression.

The protectionists have never learned that curtailment of imports inevitably hampers exports. Even if foreign countries do not immediately retaliate for trade restrictions injuring them, their foreign purchases are circumscribed by their ability to sell abroad. This is why the Hawley-Smoot Tariff Act which closed our borders to foreign products also closed foreign markets to our products. American exports fell from $5.5 billion in 1929 to $1.7 billion in 1932. American agriculture customarily had exported over 20 per cent of its wheat, 55 per cent of its cotton, 40 per cent of its tobacco and lard, and many other products. When international trade and commerce were disrupted, American farming collapsed. In fact, the rapidly growing trade restrictions, including tariffs, quotas, foreign exchange controls, and other devices were generating a world-wide depression.

Agricultural commodity prices, which had been well above the 1926 base before the crisis, dropped to a low of 47 in the summer of 1932. Such prices as $2.50 a hundredweight for hogs, $3.28 for beef cattle, and 32¢ a bushel for wheat, plunged hundreds of thousands of farmers into bankruptcy. Farm mortgages were foreclosed until various states passed moratoria laws, thus shifting the bankruptcy to countless creditors.

Rural Banks in Trouble

The main creditors of American farmers were, of course, the rural banks. When agriculture collapsed, the banks closed their doors. Some 2,000 banks, with deposit liabilities of over $1.5 billion, suspended between August, 1931, and February, 1932. Those banks that remained open were forced to curtail their operations sharply. They liquidated customers' loans on securities, contracted real estate loans, pressed for the payment of old loans, and refused to make new ones. Finally, they dumped their most marketable bond holdings on an already depressed

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market. The panic that had engulfed American agriculture also gripped the banking system and its millions of customers.

The American banking crisis was aggravated by a series of events involving Europe. When the world economy began to disintegrate and economic nationalism ran rampant, European debtor countries were cast in precarious payment situations. Austria and Germany ceased to make foreign payments and froze large English and American credits; when England finally suspended gold payments in September, 1931, the crisis spread to the U.S. The fall in foreign bond values set off a collapse of the general bond market, which hit American banks at their weakest point – their investment portfolios.

Depression Compounded

1931 was a tragic year. The whole nation, in fact, the whole world, fell into the cataclysm of despair and depression. American unemployment jumped to more than 8 million and continued to rise. The Hoover Administration, summarily rejecting the thought that it had caused the disaster, labored diligently to place the blame on American businessmen and speculators. President Hoover called together the nation's industrial leaders and pledged them to adopt his program to maintain wage rates and expand construction. He sent a telegram to all the governors, urging cooperative expansion of all public works programs. He expanded Federal public works and granted subsidies to ship construction. And for the benefit of the suffering farmers, a host of Federal agencies embarked upon price stabilization policies that generated ever larger crops and surpluses which in turn depressed product prices even further. Economic conditions went from bad to worse and unemployment in 1932 averaged 12.4 million.

In this dark hour of human want and suffering, the Federal government struck a final blow. The Revenue Act of 1932 doubled the income tax, the sharpest increase in the Federal tax burden in American history. Exemptions were lowered, "earned income credit" was eliminated. Normal tax rates were raised from a range of 1½ to 5 per cent to a range of 4 to 8 per cent, surtax rates from 20 per cent to a maximum of 55 per cent. Corporation tax rates were boosted from 12 per cent to 13¾ and 14½ per cent. Estate taxes were raised. Gift taxes were imposed with rates from ¾ to 33½ per cent. A 1¢ gasoline tax was imposed, a 3 per cent automobile tax, a telegraph and telephone

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tax, a 2¢ check tax, and many other excise taxes. And finally, postal rates were increased substantially.

When state and local governments faced shrinking revenues, they, too, joined the Federal government in imposing new levies. The rate schedules of existing taxes on income and business were increased and new taxes imposed on business income, property, sales, tobacco, liquor, and other products.

Murray Rothbard, in his authoritative work on *America's Great Depression* (Van Nostrand, 1963), estimates that the fiscal burden of Federal, state, and local governments nearly doubled during the period, rising from 16 per cent of net private product to 29 per cent. This blow, alone, would bring any economy to its knees, and shatters the silly contention that the Great Depression was a consequence of economic freedom.

The New Deal of NRA and AAA

One of the great attributes of the private-property market system is its inherent ability to overcome almost any obstacle. Through price and cost readjustment, managerial efficiency and labor productivity, new savings and investments, the market economy tends to regain its equilibrium and resume its service to consumers. It doubtless would have recovered in short order from the Hoover interventions had there been no further tampering.

However, when President Franklin Delano Roosevelt assumed the Presidency, he, too, fought the economy all the way. In his first 100 days, he swung hard at the profit order. Instead of clearing away the prosperity barriers erected by his predecessor, he built new ones of his own. He struck in every known way at the integrity of the U.S. dollar through quantitative increases and qualitative deterioration. He seized the people's gold holdings and subsequently devalued the dollar by 40 per cent.

With some third of industrial workers unemployed, President Roosevelt embarked upon sweeping industrial reorganization. He persuaded Congress to pass the National Industrial Recovery Act (NIRA), which set up the National Recovery Administration (NRA). Its purpose was to get business to regulate itself, ignoring the antitrust laws and developing fair codes of prices, wages, hours, and working conditions. The President's Re-employment Agreement called for a minimum wage of 40¢ an hour ($12 to $15 a week in smaller communities), a 35-hour work week for industrial workers and 40 hours for white

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collar workers, and a ban on all youth labor.

This was a naive attempt at "increasing purchasing power" by increasing payrolls. But, the immense increase in business costs through shorter hours and higher wage rates worked naturally as an *antirevival* measure. After passage of the Act, unemployment rose to nearly 13 million. The South, especially, suffered severely from the minimum wage provisions. The Act forced 500,000 Negroes out of work.

Nor did President Roosevelt ignore the disaster that had befallen American agriculture. He attacked the problem by passage of the Farm Relief and Inflation Act, popularly known as the First Agricultural Adjustment Act. The objective was to raise farm income by cutting the acreages planted or destroying the crops in the field, paying the farmers *not* to plant anything, and organizing marketing agreements to improve distribution. The program soon covered not only cotton, but also all basic cereal and meat production as well as principal cash crops. The expenses of the program were to be covered by a new "processing tax" levied on an already depressed industry.

NRA codes and AAA processing taxes came in July and August of 1933. Again, economic production which had flurried briefly before the deadlines, sharply turned downward. The Federal Reserve index dropped from 100 in July to 72 in November of 1933.

Pump-Priming Measures

When the economic planners saw their plans go wrong, they simply prescribed additional doses of Federal pump priming. In his January 1934 Budget Message, Mr. Roosevelt promised expenditures of $10 billion while revenues were at $3 billion. Yet, the economy failed to revive; the business index rose to 86 in May of 1934, and then turned down again to 71 by September. Furthermore, the spending program caused a panic in the bond market which cast new doubts on American money and banking.

Revenue legislation in 1933 sharply raised income tax rates in the higher brackets and imposed a 5 per cent withholding tax on corporate dividends. Tax rates were raised again in 1934. Federal estate taxes were brought to the highest levels in the world. In 1935, Federal estate and income taxes were raised once more, although the additional revenue yield was insignificant. The rates seemed clearly aimed at the redistribution of wealth.

According to Benjamin Anderson, "the impact of all these multi-

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tudinous measures – industrial, agricultural, financial, monetary and other – upon a bewildered industrial and financial community was extraordinarily heavy. We must add the effect of continuing disquieting utterances by the President. He had castigated the bankers in his inaugural speech. He had made a slurring comparison of British and American bankers in a speech in the summer of 1934. . . . That private enterprise could survive and rally in the midst of so great a disorder is an amazing demonstration of the vitality of private enterprise."

Then came relief from unexpected quarters. The "nine old men" of the Supreme Court, by unanimous decision, outlawed NRA in 1935 and AAA in 1936. The Court maintained that the Federal legislative power had been unconstitutionally delegated and states' rights violated.

These two decisions removed some fearful handicaps under which the economy was laboring. NRA, in particular, was a nightmare with continuously changing rules and regulations by a host of government bureaus. Above all, voidance of the act immediately reduced labor costs and raised productivity as it permitted labor markets to adjust. The death of AAA reduced the tax burden of agriculture and halted the shocking destruction of crops. Unemployment began to decline. In 1935 it dropped to 9.5 million, or 18.4 per cent of the labor force, and in 1936 to only 7.6 million, or 14.5 per cent.

A New Deal for Labor

The third phase of the Great Depression was thus drawing to a close. But there was little time to rejoice, for the scene was being set for another collapse in 1937 and a lingering depression that lasted until the day of Pearl Harbor. More than 10 million Americans were unemployed in 1938, and more than 9 million in 1939.

The relief granted by the Supreme Court was merely temporary. The Washington planners could not leave the economy alone; they had to earn the support of organized labor, which was vital for re-election.

The Wagner Act of July 5, 1935, earned the lasting gratitude of labor. This law revolutionized American labor relations. It took labor disputes out of the courts of law and brought them under a newly created Federal agency, the National Labor Relations Board, which became prosecutor, judge, and jury, all in one. Labor union sympathizers on the Board further perverted the law that already afforded legal immunities and privileges to labor unions. The

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U. S. thereby abandoned a great achievement of Western civilization, equality under the law.

The Wagner Act, or National Labor Relations Act, was passed in reaction to the Supreme Court's voidence of NRA and its labor codes. It aimed at crushing all employer resistance to labor unions. Anything an employer might do in self-defense became an "unfair labor practice" punishable by the Board. The law not only obliged employers to deal and bargain with the unions designated as the employees' representative; later Board decisions also made it unlawful to resist the demands of labor union leaders.

Following the election of 1936, the labor unions began to make ample use of their new powers. Through threats, boycotts, strikes, seizures of plants, and outright violence committed in legal sanctity, they forced millions of workers into membership. Consequently, labor productivity declined and wages were forced upward. Labor strife and disturbance ran wild. Ugly sitdown strikes idled hundreds of plants. In the ensuing months economic activity began to decline and unemployment again rose above the ten million mark.

But the Wagner Act was not the only source of crisis in 1937. President Roosevelt's shocking attempt at packing the Supreme Court, had it been successful, would have subordinated the Judiciary to the Executive. In the U.S. Congress the President's power was unchallenged. Heavy Democratic majorities in both houses, perplexed and frightened by the Great Depression, blindly followed their leader. But when the President strove to assume control over the Judiciary, the American nation rallied against him, and he lost his first political fight in the halls of Congress.

There was also his attempt at controlling the stock market through an ever-increasing number of regulations and investigations by the Securities and Exchange Commission. "Insider" trading was barred, high and inflexible margin requirements imposed and short selling restricted, mainly to prevent repetition of the 1929 stock market crash. Nevertheless the market fell nearly 50 per cent from August of 1937 to March of 1938. The American economy again underwent dreadful punishment.

Other Taxes and Controls

Yet other factors contributed to this new and fastest slump in U.S. history. The Undistributed Profits Tax of 1936 struck a heavy blow at profits retained for use in business. Not content with destroying

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the wealth of the rich through confiscatory income and estate taxation, the administration meant to force the distribution of corporate savings as dividends subject to the high income tax rates. Though the top rate finally imposed on undistributed profits was "only" 27 per cent, the new tax succeeded in diverting corporate savings from employment and production to dividend income.

Amidst the new stagnation and unemployment, the President and Congress adopted yet another dangerous piece of New Deal legislation: the Wages and Hours Act or Fair Labor Standards Act of 1938. The law raised minimum wages and reduced the work week in stages to 44, 42, and 40 hours. It provided for time-and-a-half pay for all work over 40 hours per week and regulated other labor conditions. Again, the Federal government thus reduced labor productivity and increased labor costs – ample grounds for further depression and unemployment.

Throughout this period, the Federal government, through its monetary arm, the Federal Reserve System, endeavored to reinflate the economy. Monetary expansion from 1934 to 1941 reached astonishing proportions. The monetary gold of Europe sought refuge from the gathering clouds of political upheaval, boosting American bank reserves to unaccustomed levels. Reserve balances rose from $2.9 billion in January, 1934, to $14.4 billion in January of 1941. And with this growth of member bank reserves, interest rates declined to fantastically low levels. Commercial paper often yielded less than 1 per cent, bankers' acceptances from ⅛ per cent to ¼ per cent. Treasury bill rates fell to 1/10 of 1 per cent and Treasury bonds to some 2 per cent. Call loans were pegged at 1 per cent and prime customers' loans at 1½ per cent. The money market was flooded and interest rates could hardly go lower.

Deep-Rooted Causes

The American economy simply could not recover from these successive onslaughts by first the Republican and then the Democratic Administrations. Individual enterprise, the mainspring of unprecedented income and wealth, didn't have a chance.

The calamity of the Great Depression finally gave way to the holocaust of World War II. When more than 10 million able-bodied men had been drafted into the armed services, unemployment ceased to be an economic problem. And when the purchasing power of the dollar had been cut in half through vast budget deficits and currency inflation, American busi-

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ness managed to adjust to the oppressive costs of the Hoover-Roosevelt Deals. The radical inflation in fact reduced the real costs of labor and thus generated new employment in the postwar period.

Nothing would be more foolish than to single out the men who led us in those baleful years and condemn them for all the evil that befell us. The ultimate roots of the Great Depression were growing in the hearts and minds of the American people. It is true, they abhored the painful symptoms of the great dilemma. But the large majority favored and voted for the very policies that made the disaster inevitable: inflation and credit expansion, protective tariffs, labor laws that raised wages and farm laws that raised prices, ever higher taxes on the rich and distribution of their wealth. The seeds for the Great Depression were sown by scholars and teachers during the 1920's and earlier when social and economic ideologies that were hostile toward our traditional order of private property and individual enterprise conquered our colleges and universities. The professors of earlier years were as guilty as the political leaders of the 1930's.

Social and economic decline is facilitated by moral decay. Surely, the Great Depression would be inconceivable without the growth of covetousness and envy of great personal wealth and income, the mounting desire for public assistance and favors. It would be inconceivable without an ominous decline of individual independence and self-reliance, and above all, the burning desire to be free from man's bondage and to be responsible to God alone.

Can it happen again? Inexorable economic law ascertains that it must happen again whenever we repeat the dreadful errors that generated the Great Depression.

Editor's Note: The foregoing review, of the monetary manipulations and other interventions that led to the crash of 1929 and prolonged it for a decade, first appeared in the October 1969 FREEMAN. It also has been widely distributed as a Bramble Minibook. The lesson, however, remains to be learned. A depression has a message, if we will heed it.

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The Message of Depression

PAUL L. POIROT

WHATEVER ELSE may be said for or against it, the boom period of an inflation is marked by extensive waste of scarce and valuable resources. This is not to say that the user knows at the time that he is wasting resources. Only in retrospect, during the depression that necessarily follows such a boom, is there clear evidence that the prior practices were wasteful. The painful message the depression brings is: "Curb the waste!"

Waste is the child of excess. The boom period generates an illusion of abundance of goods and services – the reality being a lot of bad money. The more bad money people acquire, the faster they'll try to spend it. This explains the wasteful spending habits that develop in the boom phase of inflation. Scarce resources are malinvested and used recklessly—as seen more soberly in retrospect. A plethora of cheap money and credit, like any form of subsidy, makes scarce resources appear to be more plentiful and less costly than they really are. We consume too much too fast of those things we think "someone else" is paying for. Bad money plays tricks on us – until the depression comes. Then we're sorry.

We barely get started with all sorts of boom-time schemes to clean the air and the water and the slums, to rid the world of illiteracy and starvation and disease, to preserve or restore the state of Nature, provide an abundance of housing, medication, transportation, recreation – the satisfaction of every form of human need or aspiration – when suddenly and apparently without warning we face a meat shortage, a grain shortage, a lumber shortage, a sugar shortage, a fuel shortage – in fact, a serious shortage of every scarce resource in the world.

If we're now serious about stopping waste, the first step will be to

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learn to recognize what is wasteful before the waste occurs. And that won't be easy.

Oh, sure, you know very well when I'm wasting something; and I can see clearly how wasteful you are. Perhaps we could even agree to talk it over, and try to take each other's advice. But, that isn't really the problem. I'm content to have you use your own resources as you please. If you want to waste some of them, you'll get no criticism or complaint from me so long as your waste isn't injuring me or damaging my property.

I believe that you do not run about consciously trying to waste your time or energy or property. With more wisdom and will power, perhaps you could multiply your productive efficiency. But you try to do your best with what you have. You act to serve the most urgent need of each moment, as you then see it. Why do I believe you'll act in such a manner? Because, that is how I act. So, I respect your use of your resources, and would hope you'll respect my choices.

Without The Owner's Consent

The problem – the waste I deplore – is the action of any person or group to use my resources, my property, my life for purposes I can't approve. So I object to theft, fraud, coercive acts of any kind against me, especially coercive governmental actions that go beyond what I believe are the limited, proper functions of government. And it appears that such governmental waste is most flagrant during the printing-press financing of an inflationary boom.

True, the size and scope of government is always a compromise. Some persons want more government regulation and control; some want less. So we get about as much governing as the prevailing majority will tolerate in taxes. And the minority, plus a number of those of the majority, will see in the resultant compromise many items of waste. At least, this is the situation during "normal times," when it is reasonably clear to the electorate what the government has in mind doing and who will be taxed how much to pay for it.

Let us return now to the real problem: the excessive waste during an inflationary boom. Such waste is backed by all sorts of plausible arguments and good intentions, but the key to the excessive waste lies in the method used to finance it – the arbitrary government expansion of money and credit. The government simply prints the money it spends to withdraw goods and services from the market. It doesn't reduce the quantity of money remaining in the pockets of civilians – it just di-

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minishes the supplies of goods and services. This is what makes it so difficult to see the costs – to identify the wasteful spending at the time it happens. But the waste does occur, the spending increases, the supply of irredeemable paper money expands, goods become scarce, controls are applied in multiple phases, businesses fail, unemployment rises, producers and consumers become depressed.

Our depression is justified. We have been tricked with bad money. The government has wasted our resources. The message that somehow must be learned by the citizenry before it will be conveyed to Congress is to stop that waste; stop squandering and start protecting our savings; let us serve ourselves and one another through honest production and trade; let us choose a money we can trust so we can know, at the time, the cost of our actions; let us own gold. Why gold? Because governments have no power to arbitrarily increase the supply. It can't be counterfeited. It is honest money.

That could be the message of the current depression if we will learn it; but it most certainly will never be delivered to Congress unless and until we do learn it thoroughly.

Meanwhile, instead of stopping the waste, irresponsible governments will try to stop the depression – by further deficit spending, and printing more money. Producers will be maligned for what they have brought to market rather than encouraged to produce and offer more. Consumers will be asked to voluntarily shiver and starve rather than spend *their* cash holdings to draw goods from the market. The usual premise of those whom we elect to govern us is that they know better how to use our resources than we do. And the longer we allow that premise to go unchallenged, the more of our precious resources will be wasted. Those resources are drawn from the market for purposes we do not understand or approve, with unlimited issue of fiat money that the government forces upon us as legal tender, even though producers and traders have every reason to mistrust it as a medium of exchange.

International Consequences of Political Intervention

The domestic consequences of these political interventions are serious enough. Citizens are regulated and controlled and taxed, producers are punished, businesses are driven into bankruptcy and then nationalized, to be governmentally operated with "post-office efficiency." As welfare programs proliferate, the "clients" sink into the ever-declining level

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of living characteristic of socialized societies. Waste is the order of the day, and the economy is weakened as more and more government control displaces the functioning of the market. But the disaster does not stop at the national borders.

A weakened nation can neither compete successfully in world markets nor can it command international respect by reason of its military might. It simply tends to waste away. And such a weakened economic and political machine is in no position to cope with an energy crisis. Attempts to throw the blame on the Arabs or other producers of oil – some mysterious international cartel – have a hollow ring. How stepped-up waste of resources can make the United States self-sufficient by 1985 is never explained. How further self-imposed tariffs and embargoes will help us get the oil we need is far from clear. How more paper money, which already is unacceptable in international trade, will buy us friends abroad or keep us warm at home is a puzzle. Have we not had sufficient experience with the bad money government provides, and the excessive waste of resources under government control, to get the message and relay it to Congress: "Stop the waste and leave us to our own choices in the world market. Let us buy and sell on our own terms in the money of our choice."

It might be very interesting and instructive to see what a few pieces of gold thrown into the international oil cartel would do to it. Who knows how many gallons of oil some producer might release for one ounce of the precious metal? Or how many other producers or potential producers of oil might rise to the bait and offer fuel at bargain rates for that kind of money?

Once American citizens are properly depressed over government waste through monetary manipulation, they may then get the message to Congress to let money be whatever the market says it is. Then, if government has need for resources, let them be taken directly and openly from owners – not through a mystifying monetary procedure.

Citizens then might still condone some wasteful government spending. Men do make mistakes. But the tendency is to correct such mistakes most rapidly when the costs are instantly and clearly revealed. The dreadful cost of letting the government prescribe and manage our money is now becoming clear. If that mistake is corrected, it would go far to curb numerous other wasteful practices – and our depression will not have been in vain.

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Marx, Mises and the Interest Doctrines

DAVE OSTERFELD

THE WRITINGS of the classical economists were beset by an internal contradiction. On the one hand, they believed that labor was the source of all value and that wage rates were determined by an antagonistic struggle with capital. On the other hand, they were aware that since one could only make a profit by providing consumers with what they desired to buy, men out for their own gain were led as if "by an invisible hand" to promote the common good. The classical economists were unable to resolve their dilemma, and their writings gave rise to two mutually exclusive interpretations of the workings of the capitalist system: the "conflict of interest" and the "harmony of interest" doctrines.

In *Capital,* Karl Marx claimed that commodities "in which equal quantities of labor are embodied, or which can be produced in the same time, have the same value."[1] Thus, labor was held to be the sole source of all value. It follows from this premise that supply and demand can regulate nothing but the "temporary fluctuations" of market prices. They can explain merely "why the market price of a commodity rises above or sinks below its *value,* but they can never account for that value."[2] For Marx, "that which determines the magnitude of the value of any article is the amount of labor socially necessary . . . for its production."[3] It was at this juncture that Marx felt he uncovered the antagonistic nature of capitalism.

• *Formulation of Wage Rates.* Since the laborer doesn't own the means of production, he is forced, in order to live, to sell his "labor-power" to the capitalist at its value, i.e. subsistence.[4] But in buy-

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ing his labor-power the capitalist gets the labor for the entire day. It takes only a portion of the day for the worker to produce the value of his wage. The remaining portion of the day the worker produces profit, or "surplus value," for the capitalist. The laborer, therefore, doesn't get the full value of his product. He is exploited by the capitalist who lives off of the labor of the workers.

Marx felt that there was an inverse relationship between wages and profits. For one to rise the other had to fall. Since, by the nature of the capitalist system, the interest of the workers was diametrically opposed to that of the capitalists, there would be irreconcilable class conflict so long as this system persisted.

• *Principles of Exchange.* While Marx focused on the relationship between the workers and capitalists, his collaborator, Frederick Engels, helped to complete the picture by dealing with the more general aspects of exchange. Since the "true value" of commodities was determined by labor-time, the only just basis for trade would be an exchange of objects of equivalent labor-times. Since value was held to be *objective*, it was obvious that profit was exploitive: the profit of one would necessarily entail the loss of another. But if the exchange were just, i.e., equivalent was exchanged for equivalent, then there would be no profit and capitalism would collapse. As Engels neatly puts it, "In every purchase and sale . . . two men with diametrically opposed interests confront each other. The confrontation is decidedly antagonistic, for each knows the intentions of the other – knows they are opposed to his own. Therefore, the first consequence is . . . the application of immoral means to attain an immoral end...." Hence, concluded Engels, "In a word, trade is legalized fraud."[5] Profit was always synonymous with exploitation.

The Subjectivity of Value

While Marx concentrated on the conflict features of classical economics, the "Austrian School" set the stage for the further development of the embryonic "harmony doctrine" by their destruction of the labor theory of value. Value, argued the Austrians, was not something objective; on the contrary, it was an individual *subjective* phenomenon that had little to do with the amount of labor-time involved in production. It did not lie in the object produced but in the perceptions of the valuing individual.[6] An ashtray, for example, is more valuable to a smoker than a non-smoker, regardless

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of the amount of labor and materials involved in its production.

This cognition led to the conclusion that since value is subjective, there could be no objective or "real" value determined by adding up the hours of labor involved in production. On the contrary, one starts with the final price of a good as determined by the subjective valuations of the consumers. Prices for the factors of production, including labor, are then derived from the final price. The famous Law of Value was therefore demonstrated to be only a particular law and, even where it was applicable, it was shown that "those costs are not final, but only an intermediate cause of the value of goods. In the last analysis they do not give value to their products; but *receive* it from them." As Eugen von Bohm-Bawerk illustrated, "it would be erroneous to assert that Tokay wine is valuable because Tokay vineyards possess value;" rather, "those vineyards have a high value because their product is highly valued."[7]

Mises and the Harmony Doctrine

In direct opposition to the Marxian conflict doctrine, Ludwig von Mises, drawing on the insights of the "Austrians," developed a comprehensive counter-philosophy that viewed capitalism as a system premised on the harmony of interests of all participants. His thought can be broken down into three interrelated parts: the demonstration (1) that freedom is integrally connected with laissez-faire capitalism; (2) that laissez-faire capitalism is able to harmonize diverse interests, and (3) that laissez-faire capitalism constitutes a complete and viable self-regulating system.

• *Capitalism and Freedom.* By centering his attention on individuals instead of classes, Mises was able to formulate his "action axiom." The action axiom asserts that human action is purposeful behavior which always aims at making the actor happier, at substituting a more satisfactory state of affairs for a less satisfactory one. While Mises admitted that this axiom was *tautological*[8] – since what one actually values most at any one time can only be revealed by his actions – he did believe that it had important ramifications. For the more free the society, the better able all individuals would be to choose their own individual goals and run their lives accordingly. Hence, the happier they would be. Only a free society could maximize all individual utilities.

Mises realized, however, that there could never be a society free from *all* constraint. Regardless of the type of society, one's freedom

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of choice would always be limited by the laws of logic and nature. Action always has consequences, and one cannot attain incompatible ends. An individual is free to take poison. If he does, however, he is not free to continue living. Similarly, an individual is free to be lazy. But then he must be prepared to suffer the consequences of his laziness, such as poverty, just as a rude salesman must be prepared to suffer the loss of his customers. As Mises points out, "In nature there are no such things as liberty and freedom. There is only the adamant rigidity of the laws of nature to which man must unconditionally submit if he wants to attain any ends at all."[9] To live, man must eat, sleep and drink. While man's ability to fashion his own destiny will always be limited by the laws of nature, the scope of governmental power and the efficiency of the economic process, Mises felt, were the two crucial factors in determining the scope and extent of freedom in a society.

The popular distinction between the administration of things and of people, he argued, was facile. If the government institutes price controls, for example, this means that people are now forced to alter their behavior from what it would have been in the absence of the controls. Since according to the "action axiom" people always choose the course of action which they deem will provide them with the greatest possible satisfaction, the prohibition of *any* such non-violent activity, by reducing options, restricts the scope of freedom of its citizens, and therefore reduces their happiness. This is so even when the ostensible aim of the interventionists is to make people freer. Aside from the economic fallacies of such intervention, "the liberty its supporters advocate," he pointed out, is always the "liberty to do the 'right' things, i.e., the things they themselves want to be done."[10] But liberty is meaningless if it is only the liberty to agree with those in power. Liberty is therefore always limited by the prohibition of any non-violent activity.[11] Since the power to resort to violent actions is a government monopoly, Mises defined freedom as "that state of affairs in which the individual's discretion to choose is not constrained by government violence beyond the margin within which the praxeological law restricts it anyway."[12] A laissez-faire society, he believed, where coercion can be used only *defensively*, would provide the maximum scope of freedom for all its citizens.

The second determinant of freedom is the efficiency of the economic system. While in a laissez-

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faire society, all citizens have the same freedom, to engage in any non-violent activity they desire, it is obvious that the standard of living has a significant bearing on the ability to use that freedom. The wealthier one is, other things being equal, the more options one has. Hence, the more efficient and productive the economic system, the larger the freedom of choice open to its individual participants. Since, for reasons sketched below, Mises demonstrated that a pure laissez-faire system was far more productive than any alternative, it follows that such a society would greatly extend the realm of choice.

• *Capitalism and the Harmony of Interests.* Next, Mises argued that in a free society everyone's *long run* interests can be harmonized. Since consumers buy only what is useful to them, there can be no distinction between production for use and production for profit. Those eager to make profits can do so only by producing, better than others, what the consumers wish to buy. The more satisfactorily one serves the consumers, the more profit he will earn and, therefore, the better able he will be to pursue his own goals. In this way the market is able to harmonize a plethora of diverse and seemingly incompatible individual goals. Under the free market everyone is free to pursue any interest he desires, running the gamut from purely selfish to altruistic. But it is evident that the best way to attain one's own ends is to offer services desired by others. Thus, in the capitalistic exchange society everyone serves, but in doing so everyone is served by others. For it follows from the subjectivity of values that under a system of voluntary exchange each party must value what he receives more than what he gives up, otherwise no exchange would be made. This applies to all members of society, workers, employers and consumers. Under capitalism, therefore, society can be maintained by voluntary exchange for mutual benefit and without the need for coercion.

> . . . liberty is meaningless if it is only the liberty to agree with those in power.

• *Capitalism as a Self-Regulating System.* While it is commonly believed that a society where all individuals would be free to engage in any and all peaceful activities they desire would produce a chaotic state of affairs that would

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require regulation by the state, Mises demonstrated that the exact opposite is true: a capitalist society is in fact a highly complex but orderly and self-correcting system. On the other hand, any type of government intervention reduces the standard of living and generates societal conflicts. Mises' reasoning runs as follows.

Since profit can only be made by serving the consumers, it follows that the consumers direct production by their buying and abstention from buying. If a desired object is in short supply, the price tends to rise. The lure of higher profits will tend to attract capital into the area. The resulting increased production will cause the price to return to its equilibrium level. But to produce the product in the first place, the capitalist needs workers and must therefore offer wages high enough to attract the laborers he needs. Since what the capitalist can pay in wages is limited by his expected return from the sale of his product, the consumers also determine the height of wages. If returns are not high enough to cover the cost of a particular operation this means that there is, in the eyes of the consumers, a more important use for the factors of production elsewhere.[13] In this way Mises felt that not only was the purely free market completely self-regulating but, in the long run, it also worked to increase the subjective utilities of all participants by employing "every factor of production for the best possible satisfaction of the most urgent needs of the consumer." Consequently, if "government interferes with this process, it can only impair satisfaction; it can never improve it."[14]

> . . . human action is purposeful behavior which always aims at making the actor happier . . .

If subsidies or tariffs, for example, are granted to those groups favored by the government, then everyone else is forced to engage in activities they consider less desirable than those they would have adopted. The privileged groups are therefore benefited *at the expense* of the rest of society, and political conflicts are then generated by the desire of every group to use the coercive arm of government for their own benefit. But if the practice of granting privileges becomes general, everyone loses as much by the privileges granted to others as he gains by those granted to him.

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What is more is that since government interference distorts the operations of the market it must necessarily misallocate resources. Since that will lower output, the long run effect is to hurt everyone, even the initial beneficiaries of the privileges, by reducing their standards of living below what they would have been on the free market.[15]

For Mises, the two crucial determinants of freedom were seen as integrally interrelated. As the scope of government was extended, not only would the citizens' freedom of action be ever more limited by the threat of government violence, but the more inefficient the economic process would become. Both would work to generate social conflict and limit the scope of free choice. Conversely, he felt that capitalism was a viable system, premised on the *long-run* harmony of interests of all participants, and that it served to maximize individual freedom.

Conflict or Harmony?

From this outlook Mises derived the following conclusions regarding the Marxian theory of exploitation.

• *The Formulation of Wages.* Contrary to Marxian doctrine, wages and profits are not inversely related, and there is no "class conflict" between workers and capitalists. What enables wages to rise is precisely that the capitalists, interested in increasing their profits, save and invest their money in productive machinery. Since this augments the marginal productivity of labor, *real* wages are forced up, i.e., either money wages rise or prices fall, or both. But artificial attempts to raise wages beyond the increase in marginal productivity ultimately result in *lower*, rather than higher, real wage rates. For if wages are forced above their respective equilibrium levels, the income of the entrepreneurs will be reduced, forcing the marginal producers out of business. The resulting restriction of production will then enable prices to rise, restoring the former ratio between wages and profits. However, those who lost their jobs when production was curtailed will be

> The more satisfactorily one serves the consumers, the more profit he will earn and, therefore, the better able he will be to pursue his own goals.

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forced either to remain unemployed, or look for jobs in other areas, thereby lowering wage rates in those areas. Further, since less will have been produced due to the distortion of the market and the restriction of production, real wages for those still employed will not be much higher, and may even be lower, than that prior to the rise in money wages.

The problem, believed Mises, is aggravated if an attempt is then made to effect a permanent rise in real wages by recourse to price controls. For if wages are raised above their free market rates while prices are held below theirs, the result will be a decline in the amount of capital accumulated. Since more is now being spent on consumer goods, there is a shifting of production in the direction of more consumers' goods and less producers' goods. This can *temporarily* bring about an increase in the standard of living. However, once the machines currently in existence begin to be used up and wear out, there will not have been enough new ones produced to replace them. Productivity will suffer, causing a decline in real wages. And since the only way this process can be reversed is through a resuscitation of capital accumulation, real wages, initially, will have to be reduced even further.

Far from the wealth of one implying the poverty of others, the reverse is true: one can only acquire wealth by serving others.

Thus, far from varying inversely as assumed by Marx, wages and profits tend to vary positively. And any deviation from the market process produces, in the long run, effects detrimental to both capital and labor.

• *Principles of Exchange.* If profits aren't obtained at the expense of the worker, neither are they obtained at the expense of the consumer. "The only means to acquire wealth and to preserve it, in a market economy not adulterated by government-made privileges and restrictions," argues Mises, "is to serve the consumers in the best and cheapest way."[16] Far from the wealth of one implying the poverty of others, the reverse is true: one can only acquire wealth by serving others. As soon as an entrepreneur ceases to serve the consumers, they will take their business elsewhere.

The progressive income tax and other limitations on individual

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fortunes have several consequences: (1) if the revenue from the tax is spent on current consumption it impedes capital accumulation, bringing about the effects discussed above; (2) it discourages precisely those who best serve the public, and (3) since the only way small firms can expand is to make large profits and then plough them back into their businesses, the confiscation of the greater part of these profits prevents the growth of small businesses, thereby shielding the larger firms from the threat of competition.[17] The result is that the poor, usually the intended beneficiaries, are the onces most hurt by government programs to redistribute wealth and limit profits, for it is precisely the poor who can least afford the squandering of scarce resources. The best way to raise the standard of living is to remove government restrictions on profits, for as Mises remarked, "The process that makes some people rich is . . . the corollary of the process that improves many peoples' want satisfaction."[18]

Conclusion

People act on what they believe. If they believe that capitalism is an unstable system based on the conflict of interests, they will either strive to replace the system by one ostensibly more harmonious, or to adopt political programs designed to regulate and mollify the conflict. It is this latter alternative that is popular in this country. Hence the realm of government interference is continually expanded.

This is not really surprising since it is rare for any college text even to acknowledge the existence of the harmony doctrine. Students are taught that conflict is endemic to capitalism. John Kenneth Galbraith's *American Capitalism* argues that competition has been replaced by oligopolies. To prevent exploitation by the capitalists, the government must encourage the formation of "countervailing power," i.e., oligopsonies in regard to the consumer via the formation of mass retail buyers on one side of the market, and large labor unions on the other. A social balance is to be attained by having one power center offset another, antagonistic power center. The government is to regulate these struggles to insure that no side gets the upper hand.[19] After a brilliant dissection of contemporary "interest group liberalism" in *The End of Liberalism,* Theodore Lowi reaches the paradoxical conclusion that what is needed to combat exploitation by governmentally privileged interest groups is more

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government. And in *A History of Economic Thought*, John Bell presents a caricature of the harmony of interest doctrine and quickly dismisses it as naive and "open to severe criticism." But none is given.

It is indeed ironic that in a country that is allegedly capitalistic, the writings of Ludwig von Mises should be so little known and discussed. But as Mises, himself, said, "truth persists, even if nobody is left to utter it."[20]

• FOOTNOTES •

1 Karl Marx, *Capital* (New York, 1906), p. 46.

2 Karl Marx, *Wages, Price and Profit* (Peking, 1972), p. 27.

3 Marx defines "socially necessary" as "that required to produce an article under normal conditions of production and with the average degree of skill and intensity prevalent at the time." *Capital*, p. 46.

4 Since under capitalism labor is bought and sold, its value "is determined, like that of all other commodities, by the labor-time required for its production.... The value of labor-power is the value of subsistence necessary for the maintenance of the owner. . . ." Frederick Engels, *On Capital* (New York, 1974), pp. 67-8.

5 Frederick Engels, *Outlines of a Critique of Political Economy*. Appendix to Karl Marx's *The Economic and Philosophic Manuscripts of 1844* (New York, 1973), pp. 201-2.

6 In fairness to Marx, it should be pointed out that he was aware of the existence of subjective use-value but erroneously contended that "we should leave out of sight the use-value of commodities" since, as exchange-values, commodities "are merely different quantities and consequently do not contain an atom of use-value." *Capital*, p. 44. Because of his emphasis on labor as the source of value, Marx ignored the function of time in the productive process. He did not realize that without interest, the large-scale "roundabout" methods of production would become impossible.

7 Eugen von Bohm-Bawerk, *Capital and Interest* (South Holland, Ill., 1959), Vol. II, *Positive Theory of Capital*, pp. 175-6.

8 Ludwig von Mises, *Human Action* (Chicago, 1966), p. 15.

9 Ludwig von Mises, *Socialism* (London, 1969), p. 568.

10 *Ibid.*, p. 541.

11 Mises defined "violent" as the use of physical force, the threat of its use, and the use of such types of implied violence as theft and fraud. All other actions are to be considered non-violent.

12 Mises, *Human Action*, p. 281.

13 *Ibid.*, p. 340.

14 *Ibid.*, p. 744.

15 Ludwig von Mises, *Theory and History* (New Rochelle, N. Y., 1969), pp. 32-3, and pp. 236-237.

16 Mises, *Socialism*, p. 535.

17 Mises, *Human Action*, pp. 806-9.

18 Ludwig von Mises, *The Anti-Capitalistic Mentality* (New York, 1956), p. 43.

19 It is somewhat surprising that this book should have attained the stature that it has for there are several curious lapses in logic, not the least of which is the entire thesis of the book. While Galbraith uses the "countervailing power" thesis precisely to explain the prosperity of the 1945-52 period, he emphatically insists that inflation "dissolves" countervailing power. But Galbraith, himself, admits that the 1945-52 period was inflationary. It seems a bit strange that one should try to explain an event by the use of a concept that, by the author's own admission, shouldn't even be applicable to it.

20 Ludwig von Mises, *The Historical Setting of the Austrian School of Economics* (New Rochelle, N.Y., 1969), p. 45.

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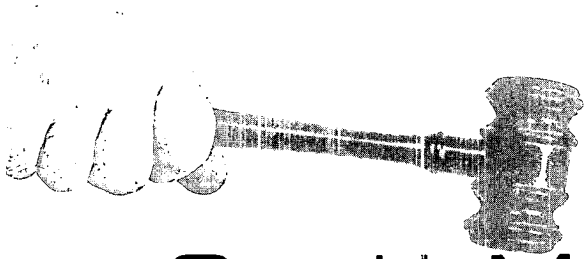
WILLIAM D. BURT



Can this Marriage Be Saved?

THE AMERICAN EXPERIMENT in government has often and most accurately been described as a marriage of democratic and republican ideals – one which many of us think is going on the rocks. More than any amount of Bicentennial hokum, events themselves compel us to re-examine why Liberty and Democracy were taken down the aisle in the first place. Perilous it is to assume that these parties have always fought, or that their basic compatibility is imperturbable. Behind the temporary tensions and hurdles of this political matrimony, we are seeing the flame flicker ever lower in its great original passion: Justice.

For an indicator I refer you to the conceptual disarray and discontent that embroils this ideal. All around us the substitutes for true justice contest for power: "equality of opportunity," "social justice," "the right to a decent living," "freedom from want." Meanwhile, justice in the old way – "to each his due" – seems to have been shunted aside. Among those who are critical of this proliferation of imperatives, perhaps a good many perceive it as being linked with a decline of belief in a One God. It is, however, only part of a much more widespread disbelief today that concrete rules of any kind can govern human action.

A well-reasoned antipathy to human rulers has extended itself, and become pathological. Burning still in our collective memory are

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the days when "reason" was the rope that tied heretics to the stake. So it is that intelligent people can be heard to deny the existence of hard-and-fast principles, in the name of tolerance. The inevitable result is that tolerance and a great many other things cease to be defended as objective human rights. But in the law, the "positivist" thinkers insist that this is as it should be. This school of jurisprudence, harking back to Thomas Hobbes and John Austin, asserts that the only objective fact is that the sovereign ruler may do just as he pleases. Professor Lon Fuller is a bit more discreet, insisting that law needs to be legitimated by reference to "reason." The sovereign should determine what is law, but is himself determined by law. Circular? Not so, says Fuller:

> Every rule of law which has enough meaning in it to be useful to lawyers and judges will inevitably contain within it that antinomy of reason and fiat that runs throughout the law . . . [It] receives concrete meaning only when tied in with an existing system of property and duty relationships that contain many elements which are obviously arbitrary. At the other extreme, even the most arbitrary rule of law has that minimum of reason behind it that justifies a respect for established and authoritative sources of law . . . The whole view of sovereignty, the view that rejects neither branch of the antinomy of reason and fiat, can be stated without mysticism or obfuscation . . . (Vol. 59, *Harvard Law Review*, pp. 377-389)

The legal positivist view was most eloquently put forth by Justice Oliver Wendell Holmes. In describing the law as a "prediction of what the courts will do," Holmes succeeded in erecting the courts as a sovereign accountable, not to any eternally fixed principles, but simply to their own perception of the popular will.

> The fallacy to which I refer is the notion that the only force at work in the development of law is logic. In the broadest sense, indeed, that would be true . . . The danger of which I speak is not the admission that the principles governing other phenomena also govern the law, but the notion that a given system, ours, for instance, can be worked out like mathematics from some general axioms of conduct . . . Such matters are really battlegrounds where the means do not exist for determinations that shall be good for all time, and where the decision can do no more than embody the preferences of a given body in a given time and place. No concrete proposition is self-evident. (Vol. 10, *Harvard Law Review*, pp. 457-468.)

How different is Holmes' declaration from a popular saying of Revolutionary days: "We hold these truths *to be self-evident*!"

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Yet, viewing these two warring epistemologies, one must conclude that positivism has the upper hand today; broad areas of American political and ethical discussion quote it almost as an article of faith. Legal positivism has an especially persuasive aura; it sounds "realistic," "the way it really works." And one cannot blame another for observing that our law often exhibits a characteristic conventionalism. For who other than the positivists have been its primary shapers for almost a full century? But let us ask if an "antinomy of reason and fiat" accurately depicts the nature of law. I think not. Coherence of the sort that positivism denies is the very essence of law; consistency is all that stands between rule by law, and rule by sheer force.

The Rule of Law

There is little question that the Framers of the United States Constitution intended to draw just such a distinction between brute rule and legitimate government by law. They recognized that all governments employ force, but that in a government of law the actions of governors are prescribed by rules, and thus made *legal*. To say that *law* governs is to say that its rules have an existence and meaning of their own, their creation having been authorized by original Framers, accomplished by subsequent legislators, and their meaning not subject thereafter to the interpretative arbitrations of anyone. Clearly, not just any rules will do; for no authority could be long sustained which clearly affronted its subjects' conception of natural right. The concern of the Constitutional Convention was, of course, to legitimate their own authority to make and impose a system; and in persuading the populace not to rise up against them they were admirably successful.

Now, if all successive administrations were to have held only that authority which was delegated under the Constitution, then our entire body of law could indeed have been worked out "like mathematics," insofar as the English language could be made to communicate exact meaning. Few ordinary citizens, much less Justice Holmes, would be very seriously troubled to see the logic of all things legal, and "strict constructionism" would by comparison be a byword for government expansionism. We should note that this bright prospect was widely anticipated in the aftermath of the Constitution's adoption; it was also quite predictably doomed. If the Convention spoke upon authority of "We, the People," then presumably the government thereafter continued as the agent of

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"the People." This is the assumption with which constitutionalism could not contend, and which a system of democratic elections strengthened – though the assumption itself is never put to a vote. The obvious fact is that successive administrations inherited not only the Constitution, but the authority behind it.

The Process of Amendment

In view of this, the power of constitutional amendment takes on a curious meaning. Agreeable to the idea of at least some change, the Framers, with a caveat against inconsistent amendments, insisted that it be accomplished within a mechanism of their own making. Washington emphasized this in his Farewell Address:

> Let there be no change by usurpation, for though this in one instance may be the instrument of the good, it is the customary weapon by which free governments are destroyed.

Nevertheless, following administrations lost no time in exercising not only delegated powers, but also their inherent *imperium,* subverting the former's limitations with the latter. So one cannot expect to confine government, by appeal to "the Constitution," to those strictures and checks which it finds onerous; the People's agent enjoys the right to ignore, blaspheme, amend, or reject altogether that which it has wrought beforehand. What hope could possibly remain that government would long remain limited?

No recourse is left but an appeal to logical consistency – traditionally weak ground in politics. Even so, the Founding Fathers hoped that someone would blow the whistle when government contradicted on one hand what it had just done with the other: in their phrase, that there would prevail "A Decent Respect for the Opinions of Mankind." Though hardly sanguine about popular rule, these men undespairingly leaned upon an enlightened minority to henceforth remind the public that the sanctions and powers of the Constitution could not sensibly be divorced from its limitations, that such a rude move would destroy a system designed to work as a unified whole. This was perhaps a reasonable faith in an era when the evidence was everywhere fresh in mind that a "mutable policy," as Madison said,

> poisons the blessings of liberty itself. It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood; if they be repealed or revised before they are promulgated, or

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undergo such incessant changes that no man, who knows what the law is today, can guess what it will be tomorrow. Law is defined to be a rule of action, but how can that be a rule, which is little known, and less fixed? (James Madison, *Federalist No. 53*)

Madison's emphasis on consistent interpretation found its background in a string of similar doctrines which ornamented the legal heritage of his day. The Roman *nulla poena sine lege*, or "no crime without law," had established that law must primarily be *disseminated* before its offenses become punishable; and secondarily that its terms be put in operational (and not merely stipulative, indefinite, or contradictory) terms. The long English tradition from the Magna Carta to the 1689 Bill of Rights counted as some of its greatest accomplishments the securing of a defendant's right to know the charges against him, and requiring the King to link those charges with an established law.

The Bill of Rights

One can gauge the prominence given to coherence in the Constitution by the vehemence with which the Framers defended it; Hamilton in particular declared that a Bill of Rights was superfluous, that the Constitution itself guaranteed all those popular freedoms which had been so carefully enshrined in the Articles of Confederation. The public was prudently intransigent on this point – none of which should indicate that the approved product was a marvel of consistency. How much of today's legal doublethink was originally coined to defend slavery, before that staggering anomaly to freedom was eradicated? No small amount of it lives on today to excuse continuing inequality before the law according to occupation, class, or other arbitrary criteria; the utilitarianism of our age has so institutionalized it that it rests more comfortably with many lawyers than does the original imperative of John Locke:

> [The power government has] ought to be exercised by established and promulgated laws: that both the people may know their Duty, and be safe and secure within the Limits of the Law, and the Rulers too kept within their due bounds, and not be tempted, by the Power they have in their hands... or else their Peace, Quiet, and Property, will be at the same uncertainty as it was in the state of Nature. (*Second Treatise on Goverment*, ed. Peter Laslett [New York, Cambridge University Press, 1963] p. 406, 405.)

Can it be said today that we know our Duty, or that our Rulers know their bounds? The uncertain view with which most of us now regard the government certainly

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suggests that the nation has not kept its fences as Locke urged we must do. It is long past time to ask how this came to be.

We have noted that there are the workings of government itself; try as they might, the Framers could not design an administration that was in fact limited to its delegated powers. We have seen the "enlightened minority" swept up in a philosophy which denies that absolute principles, much less established laws, can even exist. But no explanation of the decline of limited constitutional government would be complete without touching upon the role of the Supreme Court in defending the Framers' intent.

> Limitations of this kind can be preserved in practice no other way than through the courts of justice, whose duty it must be to declare all acts contrary to the manifest tenor of the Constitution void. Without this, all the reservations of particular rights and privileges would amount to nothing . . . The courts of justice are to be considered as the bulwarks of a limited Constitution against legislative encroachments . . . That inflexible and uniform adherence to the rights of the Constitution, and of individuals, we perceive to be indispensable in the courts of justice. (Alexander Hamilton, *Federalist No. 78*)

It is a comparatively hollow and scarred Constitution that now serves as the totem of our Court; the supreme law of the land is often little more than a cat's-paw for vast and incoherent "ethical" imperatives, various social exigencies, and the impatient stampings of the better-organized interest groups. Not surprisingly, all the checks and balances have become bulwarks of State power. Presumption often supplants vigilance, for Power's gain: judicial presumption that lawmakers hand down coherent law, and legislative presumption that the courts can "determine the exact application of the laws." Even more boldly, each of the branches of the Federal government has gotten into the business of making, applying, and adjudicating its own rules. Then, for instance, we have the sad spectacle of the Supreme Court, modestly declining to rule on substantive issues under broad areas, the sooner that it might enjoy the prerogative of "deciding each case on its merits." Can we not lament this trend all the more because use of these areas of authority is growing, and because the police power, for example, is at best *implied*, and not once mentioned in the Constitution, while the Framers demanded an "inflexible and uniform adherence to the rights . . . of individuals"?

One cannot fail to be impressed that the Constitution's authors

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were better cognizant of the critical historical tendencies of government than many are today. They knew of Power's clever usurpation of everything that stands in its way. With a mixture of hope and skepticism, they detailed the contrivances and social conditions which could best bend Power to their own noble goals. With a remarkable grasp of the state of political justification, a number of the Founding Fathers spoke of the marriage of democracy and liberty as a "last chance" for government. It remains true today that this Constitution ought to be a conclusive test of the proposition that man can be more free under government than in the state of nature. This is the stake which we still have in proving their hope better founded than their skepticism. My purely technical note is that we will yet be reminded that the sanctions and blessings of the Constitution are inseparable from its limitations, if our errant experiment in government is to work.

IDEAS ON LIBERTY

Servant Governments

SEEN IN PERSPECTIVE, this constitutional system, which is our American form of government, is a veritable latticework of barbed wire entanglements thrown around every governmental official in the land. It is a pattern of slow motion and inefficiency which no "expediter" would tolerate for five minutes in any private business organization. Is it any wonder therefore that the eager-beavers of modern jurisprudence chafe under these impediments to prompt and efficient public service? What possible answer can be made to the ever swelling chorus which demands that our *antiquated* form of government be *streamlined* toward centralized authority and sharpened responsibility? There is no answer – except one. That answer is drawn from the *substance* which this complicated *form* was built to hold safe and secure.

The men who fashioned this form of government were thinking of John Doe's life, liberty and pursuit of happiness. Their principal concern was not with the efficiency of government, but with the safety of the God-created human personality . . .

CLARENCE MANION, *The Key to Peace*

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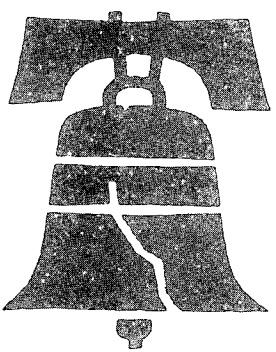
IN SEARCH OF FREEDOM



BEN MOREELL

THE THEME of this meeting is "Freedom." And I have been asked to study the problem of "preserving our freedom."

My dictionary defines "freedom" as "liberation from restraint or from the power and control of another." In the course of my studies there arose in my mind certain doubts, which merged into fears. I began to wonder whether we Americans have lost our zest for freedom: whether we really believe in liberation from restraints as a desirable way of life. I found evidence that many of us believe that we cannot trust freedom — because we are afraid it will not work! So we vote against freedom and for governmental restraints at almost every opportunity!

Now, before you jump to the conclusion that I favor unbridled license, I want to say that I, too, favor certain restrictions on freedom. For example, I want a restraint against the freedom of any person to do bodily harm to any other person, or to cheat him, or to defame him, or to use force against him in any manner. I want adequate laws against fraud, coer-

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This article is from an address at the annual meeting of the Chamber of Commerce of the United States in Washington, D. C., May 2, 1951.

Admiral Moreell then was Chairman of the Board and President of Jones & Laughlin Steel Corporation. The U. S. crisis in 1951 was the Korean War; but the crises have continued, as has the urgency of the search for freedom.

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cion and monopoly. But I believe that type of law is designed to protect the individual's freedom of choice and action. It is true that it is a restraint. But it is one that does not injure any person who desires to live in peace and deal fairly with his fellow men. That type of law is aimed solely at the person who wants to restrict or destroy the freedom of others by imposing his will and his ideas upon them.

I doubt that any right-thinking American opposes what we, in general, refer to as "the police and defense powers of government." These are designed to protect all of us equally against internal or external aggression. Those basic powers were provided for in our Federal and State Constitutions just about as they had developed under the common law of England. But over the years a different concept of the functions of government has grown up among us.

The founding fathers established a form of limited government with divided governmental powers designed to protect the smallest possible minority – one person – against the demands of the largest possible majority –all other persons combined. But, today, there is evidence that we are turning to the dictatorial thesis that "might makes right"; that there is no inviolable right for any person if the organized and formalized majority decrees otherwise; that the mere legalizing of an action makes it morally proper.

Thus we appear to be drifting from freedom and responsibility to restrictions and irresponsibility. We now demand that government "protect" us against the results of our own freedom of choice. We appear to have accepted the theory of group morality; of determining right and wrong by voting on it – and then accepting the majority decision. It makes one wonder what the future holds for a nation wherein the people lose their faith in individual freedom and in personal responsibility for one's own actions.

The Case of Businessmen

Now, before we consider specific examples of this rejection of freedom, I would like to make two points. First, I am not talking about "someone else" who is not with us today. I am talking specifically about myself – and about you, my fellow businessmen. For I see little evidence that we businessmen of America have greater faith in individual freedom than have farmers, industrial workers, doctors, teachers, ministers or any other occupational group. You may have heard it said that if only others – the traditional "man in the street" – knew as much about

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this subject as "we businessmen," there would be no danger to our freedom. I believe that is a self-righteous position, built on a false premise. I believe that many of us have made the same errors as those in other groups. If you wish to see with what ease we "free enterprisers" can justify our tastes for socialism, you have only to examine the "resolutions" of almost any organization of businessmen as they emerge from the Annual Convention!

Let us admit, then, that it is we who need to learn and not a nebulous "someone else."

My second point is that I am quite sure that I do not know the answers to the weighty problems which we face. I do not have a pipeline to God, or eternal truth, any more than you have. I speak to you as a student, not as a teacher. And, I come here, in all humility, to present for your consideration the results of my study of freedom.

Social Security

Probably the most clear-cut example of our lack of faith in individual freedom is found in the compulsory social security pension system administered by the Federal Government which has spread so rapidly over our country. I would guess that few persons here would abolish this system, even if they could. The reason, I believe, is this: few persons believe that individual freedom and personal responsibility for one's own welfare offer the greatest possible security in an admittedly insecure world. It appears that we Americans no longer believe that a free person in a free country can or will voluntarily provide for the welfare of himself, his family and his handicapped or temporarily unfortunate neighbor. In contradiction of our own Declaration of Independence, we appear to be rapidly becoming a nation of dependents. That philosophy of despair is summed up in the question that is heard whenever the subject of security by dependence on government is discussed: "Would you let them starve?"

Let us consider the implied meaning of that question. To me it says, if people are free and responsible for their own welfare, they will starve. It says that we have rejected Christ's teachings on love and charity. It says that we – through our churches and our other voluntary organizations – cannot or will not care for the unfortunate among us. It says that a free economy results in starvation instead of progress and prosperity. It says that freedom is a failure and that, for our salvation, we must turn to the authoritarian concept of government-

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guaranteed security. I believe this is an outright rejection of the original American belief in freedom of choice and personal responsibility for one's own decisions and actions.

I believe few would find fault with the announced goal of social security, i.e., freedom from want in old age. But even if we are willing to incur the dangers to *all* our freedoms which arise when we maximize the importance of "freedom from want," we still must answer the question: "Will it work as it is now administered by Government?"

The receipts from social security taxes are used to defray current costs of government. But the goods and services which will be given in the future to the beneficiaries of social security will have to be provided from the then current production. They will be paid for by current taxes or by inflation. In either case the net effect will be to take from producers to give to non-producers. When this effect becomes substantial, the incentive to produce is impaired or destroyed. And we must remember that the very safety of the nation depends upon our ability and our willingness to produce! Social Security taxes are, in effect, a withdrawal against savings. If they are to be productive they should be used to increase our tools of production, not for current expenses of government!

Slavery and Privation

As proof of the error of our present approach, let us look at the nations of the world where governments exercise the greatest degree of control over their people. There you will find the lowest standards of living. Let us examine Russia and her satellites. The siren song of government-guaranteed security has brought mass privation to the citizens of those nations.

Look at Britain and her promise of security from the cradle to the grave!

It is important to recall that the British experiment in government security has not only led to successive crises in this post-war period; it has also required that Britain be bailed out periodically primarily by American aid, with secondary assists from Canada and other Commonwealth nations. It is proper, then, to raise this question: Who will be there to do for us what we have done for others if we follow this road into bondage?

Our approach to the concept of government-guaranteed security here in the United States is more along the lines of British national socialism than the Russian brand of socialism. Here, we retain a

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two-party system and the right to vote, but most of the leaders of both parties are pledged to the same general program in such matters as governmental housing, social security, subsidies to farmers, loans to poor business risks, rent controls, price controls, tariffs and other restrictions against the freedom of honest persons to trade with other honest persons on terms mutually acceptable. There may be a difference in the degree of socialization or in the mechanics of administration advocated by our two major political parties. But it is difficult to distinguish any major difference in basic principle. Thus, I believe, we have clear proof at home and abroad that democracy of itself does not automatically guarantee freedom; in fact, we have proof that regimentation lurks insidiously behind democratic promises of governmental security.

Lost Freedoms

I will not undertake to list all of the many freedoms we have surrendered in the United States — the restraints against freedom of choice that we have voted against ourselves. But such a list would include controls over farmers, businessmen, industrial workers, bankers, foreign traders and other groups. It would include price controls, wage controls, rent controls, raw materials controls, controlled rates of interest, inflated money, artificially cheap credit, and controlled production. Each of these measures has the effect of preventing honest persons from doing what they want to do or of forcing honest persons to do something that they do not want to do. As such, each is a clear-cut denial of freedom. Else why has freedom been forsaken and forbidden in these vast areas of our daily activities?

To me, the sad part of these controls is that, even if we disregard the moral issues involved, I believe they will not accomplish what they are designed to do. I can find no evidence in history that they will work and I believe the reason is clear. It is not, as is claimed, an attempt to control prices or materials; it is always an attempt to control persons.

For example, when the "new deal" was tried in Old Rome, it was announced as a program to control prices. It was persons, however, who were fed to the lions when they were caught charging more than the legal price. But, as they always will, the people continued to trade on terms mutually acceptable to buyer and seller, even when facing the death penalty.

During the French Revolution, the government tried to stop the rise of prices by condemning the

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so-called black market merchants to the guillotine. But, in spite of this, prices continued to rise in proportion to the amount of inflationary paper money that was printed and distributed by government.

In Russia, the government tried to stop inflation by the direct processes of starvation, the concentration camp, and the firing squad. It did not work, even in this most completely controlled economy the world has ever seen!

The Vital Question

This brings us to the vital question: Will the price controls, wage controls, profit controls and other measures against freedom now being instituted by government stop inflation and high prices in *our* country? I believe the answer is "No." I believe that fines against so-called black marketeers will not stop inflation nor will prison terms stop it.

I concede that our government officials do wish to stop inflation. I suggest, therefore, that they consult the dictionary to find a definition of what they are trying to stop. They will find that inflation is defined as "a disproportionate increase in the quantity of money or credit, or both, relative to the amount of exchange business." That is, inflation is caused by a disproportionate increase of money and credit relative to available goods and services. The question then is: Who or what is responsible for increasing the money and credit?

It would appear to be our own government that is responsible for the inflation and high prices that are upon us today. Yet, this same government is leading the posse in an attempt to catch the culprits! While we are being warned to watch out for "speculators and black marketeers" the real culprit (our own government) continues its inflationary fiscal policies of creating more and more money and credit in relation to the production of goods and services.

We are now fighting one costly war while we are preparing for a greater one. Such a program requires a tremendous amount of goods and services. If these must be produced now, instead of ten years from now, then the efforts of individual citizens must be directed now to that purpose. Whatever the cost in effort of rearmament it comes at the time the goods are being provided. It is not possible to have the products now and to postpone the effort to suit our convenience. And if the government does not pay for the effort required to produce the goods of war with money gathered by taxes now, then, *judging by past experience*, the government will pay for

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those goods with printing-press money, or its equivalent, that will destroy by inflation the value of our earnings and savings as though they had been taken from us by taxes. It appears that the sole effect of so-called "deferred payments," *as previously practiced,* is to delude us into believing that it is possible to get something for nothing – instead of having to work and pay for it.

It is proper, I believe, to raise this question at this point: How can we discharge that obligation to "secure the blessings of liberty" to our posterity which the Constitution enjoins upon us, if we pursue the will-o'-the-wisp of inflation and thus mortgage the liberty of that posterity?

Four Minus One Is Three

We have been told that one-fourth of our production and services may eventually be absorbed by the armament program. In the face of that, some of our more optimistic government officials tell us that the Defense Program will cause little or no decline in our standard of living. I cannot follow this line of reasoning. For when one is subtracted from four, the result is three. And all the controls in the world cannot change that answer or the natural consequences that must inevitably result when more and more money bids for fewer and fewer goods and services.

I believe that if our government adopted the forthright approach of collecting in taxes the full amount of its expenditures, we would thus eliminate any excuse for building up a huge bureaucracy in the futile effort to prevent prices and wages from finding their natural levels. For on a pay-as-you-go basis, as goods and services are funneled into rearmament, an equal amount of purchasing power would be withdrawn by taxation. Thus there would be no serious inflation and little or no further general price rise in the overall economy.

But if we continue in the direction we have been going in recent years, with a steadily increasing stream of money accompanied by compulsions against individual freedom, we have reason for concern for the future of our nation. For such a course will bring two evils that must eventually destroy us – as surely as if we were invaded and conquered.

A Nation of Lawbreakers

In the first place, I believe economic necessity will eventually induce us to become a nation of lawbreakers in order to survive under a permanent system of wage, price and other controls. Normally honest persons will find it necessary

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for economic survival to return again to the under-the-counter deals and black market operations that existed under previous governmental attempts to abolish the free market and the right of persons to trade with each other on mutually acceptable terms. Good laws will then suffer along with bad laws. Because the only way to create respect for all law is to make sure that all laws are themselves respectable. Laws that cause normally honest people to become technical criminals are not respectable laws. But these laws against individual freedom of choice and action, laws that are designed to abolish the natural operations of a free and competitive market, will offer criminals and gangsters an unexcelled opportunity to flourish. This could easily mean the end of our American experiment in freedom – the end of our original concept of government as servant, not master of the people.

Power Corrupts

Another great danger is to be found in what happens to the officials who are called upon to administer these great governmental powers. For when a person gains power over other persons – the political power to force other persons to do his bidding when they do not believe it right to do so – it seems inevitable that a moral weakness develops in the person who exercises that power. It may take time for this weakness to become visible. In fact, its full extent is frequently left to the historians to record, but we eventually learn of it. It was Lord Acton, the British historian, who said: "All power tends to corrupt; absolute power corrupts absolutely."

Please do not misunderstand me. These persons who are corrupted by the process of ruling over their fellow men are not innately evil. They begin as honest men. Their motives for wanting to direct the actions of others may be purely patriotic and altruistic. Indeed, they may wish only "to do good for the people." But, apparently, the only way they can think of to do this "good" is to impose more restrictive laws.

Do-Gooders

Now, obviously, there is no point in passing a law which requires people to do something they would do anyhow; or which prevents them from doing what they are not going to do anyhow. Therefore, the possessor of the political power could very well decide to leave every person free to do as he pleases so long as he does not infringe upon the same right of every other person to do as he pleases. However, that concept ap-

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pears to be utterly without reason to a person who wants to exercise political power over his fellow man, for he asks himself: "How can I 'do good' for the people if I just leave them alone?" Besides, he does not want to pass into history as a "do nothing" leader who ends up as a footnote somewhere. So he begins to pass laws that will force all other persons to conform to *his* ideas of what is good for *them*.

That is the danger point! The more restrictions and compulsions he imposes on other persons, the greater the strain on his own morality. As his appetite for using force against people increases, he tends increasingly to surround himself with advisers who also seem to derive a peculiar pleasure from forcing others to obey their decrees. He appoints friends and supporters to easy jobs of questionable necessity. If there are not enough jobs to go around, he creates new ones. In some instances, jobs are sold to the highest bidder. The hard-earned money of those over whom he rules is loaned for questionable private endeavors or spent on grandiose public projects at home and abroad. If there is opposition, an emergency is declared or created to justify these actions.

If the benevolent ruler stays in power long enough, he eventually concludes that power and wisdom are the same thing. And as he possesses power, he must also possess wisdom. He becomes converted to the seductive thesis that election to public office endows the official with both power and wisdom. At this point, he begins to lose his ability to distinguish between what is morally right and what is politically expedient.

I am aware that whenever controls and restrictions are proposed, the argument is made that they are temporary, "for the period of the emergency only." But I have seen too many "temporary" measures harden into permanent controls by government to permit me to view them with complacency. We have been told by government officials that the present emergency may last for a generation or even longer! Will these controls and restrictions on freedom last that long? We should, I believe, base our appraisal of any measure on the moral principle involved, and reject all justifications which are based on political or other expediency. Such justifications are inevitable when people grasp for power. Moral principle is timeless. An act that is wrong ten years from now is just as wrong today!

We are now engaged in a contest between our philosophy of living and that of a totalitarian

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state. We have said again and again that it is our free way of life that gives us both spiritual and material superiority over Russia and communism. Yet, when the crucial test between these two philosophies is imminent, we apparently feel compelled to adopt their system in order to prove that ours is best. We feel compelled to reject freedom and embrace the communist idea of a planned economy and a controlled people. Thus we surrender in the most vital battle, the battle of ideas, even before a shot is fired. What will it profit us to defeat aggressive foreign nations who believe in a regimented people and government ownership of the means of production, if, in the process, we accept the validity of their doctrines for use here in the United States? That would indeed be a Pyrrhic victory!

A Return to Freedom

Where then does this search for freedom lead us? What should we do? First, I want to say that I am quite sure I am *not* capable of determining for 150 million people [in 1951] their everyday economic and personal decisions concerning such things as wages, prices, production and all the rest. I believe that no other person, or group of persons, is capable of doing so. For that reason, I propose that these decisions and the problems connected therewith be returned to the people themselves. This, I believe, could be done in three steps:

First, let us stop this headlong rush toward more collectivism. Let there be no more special privileges for employers, employes, farmers, businessmen or any other group or persons. Let there be no enlargement of the area of socialism. That is the easiest step of all. We need merely refrain from passing additional coercive laws! And let us not ignore the fact that whenever special privilege is granted to a person or group the freedom of others is correspondingly restricted – that is coercion!

Second, let us undertake at once an orderly demobilization of many of the existing powers of centralized government. This can be done by the progressive repeal of the various socialistic laws that we already have. Let us remove the special privileges that we have granted to persons and groups. This will be a very difficult step because every pressure group in the nation will fight bitterly to retain the laws that grant them monopoly privileges and protection from competition. But if freedom is to live, all special privileges must go! Would it not be a wonderful thing if each pressure group would voluntarily surrender its

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own special privilege as a contribution to the great cause of freedom for all?

Third, of the powers which remain in government, let us decentralize as many as possible by returning them to state and local governments. For on the local level the people will be better able to safeguard their freedom by critical scrutiny of the acts of their government officials.

But I am sure that none of these steps will be taken until we believe that freedom as a way of life will work! Thus, the very first step of all is for each of us to examine his own conscience, to find out why he has lost faith in freedom in those vast areas that have been delegated to government; and how he can regain that faith. It is my firm belief that such self-examination will result in a rebirth of confidence in freedom and in individual moral responsibility in a nation now beset by fear and confusion. For I am sure that when a person understands freedom, he must believe in it!

In this time of grave national crisis I believe we can obtain guidance from the wisdom of our founding fathers. I, therefore, commend for your consideration these statements by George Mason and Thomas Jefferson in the Virginia Bill of Rights, which was itself the foundation of our Declaration of Independence:

"That all men are by nature equally free and independent, and have certain inherent rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely, the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety.

"That no free government, or the blessing of liberty, can be preserved to any people but by a firm adherence to justice, moderation, temperance, frugality, and virtue, and by frequent recurrence to fundamental principles."

These, I believe, are the truths by which we must live if we are to be free!

IDEAS ON LIBERTY

Not Through Power

I HAVE NEVER been able to conceive how any rational being could propose happiness to himself from the exercise of power over others.

THOMAS JEFFERSON

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UPLIFT

IT'S BEEN a long time since Richard Cornuelle wrote his *Reclaiming the American Dream,* a glowing book which made the voluntaristic society seem an immediate possibility. Things haven't quite turned out as Mr. Cornuelle would have wished. Inflation and voluntarism don't go together. Private schools struggle while the State, in response to the educational lobby, pours out the money for "aid" to public education. And now, with a recession or a depression or whatever you want to call it fastening itself upon us, the cry is for millions of "public service" jobs to be paid for by our children's children.

Nevertheless, the idea that people can combine in adversity to solve their own problems without running to Big Brother State for support will not die. The United States Jaycees Foundation has sponsored a book, *Uplift: What People Themselves Can Do* (Olympus Publishing Co., Salt Lake City, Utah), which shows a hundred different self-help projects in successful action. There has been some government start-up money in a few of the projects, but, as the evidence clearly shows, the organizations that have depended on their own money-raising efforts have been the healthiest.

For example, Joseph R. Spoonster, who started a Vocational Development Center for the Handicapped in Akron, Ohio, without government backing, is explicit about the value of bringing free enterprise principles to the business of teaching trades to people with disabilities. When the local community council refused him a grant in 1964, Mr. Spoonster and his wife cashed in their insurance policies and retirement funds to get their center going. It was, Mr. Spoonster says, "the best thing that could have happened to us. It was tough at the time, but it forced us away

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from the traditional conservative methods of meeting human needs."

The Spoonsters went ahead to hire the best possible instructors and proceeded to obtain contracts with firms and government agencies to employ the center's graduates. The center also took on subcontracted jobs for major industrial companies in the Akron area. Eventually the Spoonsters got a grant for expansion from HEW, which spoils the self-help story a bit. But the expansion program is now self-supporting, operating on earned income, and the Spoonsters are now working with a committee from Canada to establish the first private rehabilitation center north of the U. S. border. They also hope to expand to Brazil.

The "social gospel" church has recently gotten a bad name among libertarians by its habit of endorsing State charities paid for by tax money seized from unwilling contributors. The "social gospel" has also been entirely too complaisant about handing out money to African guerrilla groups whose idea of promoting freedom is to murder the opposition. With governments everywhere doing good by force, the older view of charity as something that comes voluntarily from the heart doesn't have too many vocal defenders these days. Without fanfare, however, there are still a lot of church groups whose primary commitment seems to be in helping to get self-help projects started.

In Webster, South Dakota, for example, a cooperative called Tract Handcrafts, Inc., has grossed more than $650,000.00 in a couple of years from patchwork quilts which have been promoted as far east as Lord and Taylor's in New York. The German, Russian, Scandinavian and Sioux Indian quilt patterns that reflect local heritages in northeastern South Dakota have great sales value in some 350 department stores around the country. The quilt-making cooperative depended at first on borrowed or donated sewing machines. But a drive by five churches provided $19,000.00 for the cooperative in six months, and the American Lutheran Church made an additional grant of $20,000.00.

Church organizations helped start Fine Vines, a black self-help corporation that makes blue jeans in Greenville, Mississippi. The Antioch Missionary Baptist Church was the first member of a Self Help Action Center which has formed hundreds of food-buying clubs that deal directly with farmers in the northern Illinois area. Working on principles that are as old as the Rochdale movement in England, the Self Help Action Center clubs buy food directly from farmers who bring their produce to the parking lot of the Antioch Missionary

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Church in Chicago for distribution that avoids all sorts of packaging expenses.

Again, it was the church that raised $10,000.00 for the Reverend Albert Williams to start an integrated shopping center in a riot-cursed urban "wasteland" in Menlo Park, California. An "ecumenical" ministry organized the farmers of the so-called boot-heel of Missouri to raise soybeans at a profit in one of the worst poverty pockets in the country. The Collegiate Reformed Dutch Church of New York gave space for the Break Free Lower East Side Preparatory School, which has been turning high-school drop-outs into "college material." And in Phoenix, Arizona, the Lutheran church helped an organization called PUSH (People United for Self-Help) get into the business of raising food for its members and for outside sale.

In Milwaukee a group named SWEAT (no acronym, it means what it says) started making playground equipment from used car and truck tires, bolting them together in pyramids and other odd shapes for children to climb over or crawl through. The venture began in the backyard of one of the workers. The city building inspector didn't like what was going on and promptly issued a cease and desist order. So SWEAT moved into another backyard. Three more backyards and three more cease and desist orders later, the operation finally managed to move into a legal manufacturing facility. Now SWEAT is on its way to financial independence, offering its unique product in five midwestern states and even nationally.

Says Mary Anne McNulty, the group's president: "It [SWEAT] is something that has been created out of nothing but the easy discards of our country — discarded telephone poles, discarded tires — by discarded people who wouldn't settle for being discarded."

The federal and state governments have performed best when, after a limited funding, they get off the backs of people in self-help projects. Too much money dulls the edge not only of husbandry but of the keenness needed to find a place in the market. In Berea, Kentucky, a woodworking cooperative was funded to the tune of $50,000.00. "But," says William McClure, the man who started the idea, "it ended up with the money in two or three people's pockets . . . They was making $10,000.00-$15,000.00 a year and we was getting $1.69 an hour, mostly . . . . running back and forth to see if they had anything for us to do." Later, starting up again without funds, the woodcarving cooperative became a success. Says Charles Wesley of the woodcarvers' office, "We were better off

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not to have government funds . . . it all ends up in a lot of overhead without support."

Richard Cornuelle would approve. His "dream" is not dead.

▸ ANARCHY, STATE, AND UTOPIA by Robert Nozick. (New York: Basic Books, 1974), 367 pp. $12.95.

Reviewed by Roger Donway

WRITERS who purport to give us the basic justification of a free society deserve special scrutiny. Because they are, in essence, inviting us to rest all of liberty on their reasoning, we must know especially the worth of their arguments. It is not enough that they decide for freedom, or that they throw off useful insights along the way. Too often, we have seen a statist premise or concession convert our enemy's enemy into our enemy's best friend.

Professor Robert Nozick's book, *Anarchy, State, and Utopia,* invites such consideration, for he has undertaken nothing less than to justify the minimal state, and to show that government should have only the function of protecting its citizens' rights. We may note that it is gratifying to discover a Harvard philosophy professor who is anxious to concoct original arguments for liberty; and gratifying again to see him make telling points against certain Leftist theories, including the theories of his collectivist-minded colleague, John Rawls. But we must not, in our pleasure, fail to ask how well he has defended freedom.

Professor Nozick, then, begins his defense with the anarchists' question: why should we have any state at all? And he answers by arguing, first, that in a state of nature there would be strong motives for instituting government; and second, that men could come out of a state of nature, setting up a minimal government, without violating anyone's rights. He then tries to demonstrate that any extension of government beyond the minimum would violate rights. And in a final section, on utopia, he urges that a free society is inspiring as well as just.

The most striking element in this may be Nozick's decision to justify free government by playing the anarchists' game. Advocates of freedom have generally believed that the question of anarchy need never and should never come up. It is worthwhile to ask why Nozick thinks he must raise it; and how he fares, having done so.

Nozick's reason appears simple and plausible: "The fundamental question of political philosophy,

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one that precedes questions about how the state should be organized, is whether there should be any state at all." This is true enough. Yet the question which precedes political philosophy does *not* ask whether there should be a monopoly over force; each man must have that, to be able to count on controlling his life. The generative question, rather, is how men can live together, if each has such a monopoly. And the historical answer, perhaps the only one, is government: an institution which commands a monopoly on force, and which is the common agent of its citizens.

Nor is it merely unnecessary to play the anarchists' game; it is also concessive. In Nozick's case, his speculations about an elaborate market for force implicitly concede that a free market does not presume protection of rights, and that long-range planning—control of one's life—can exist where force is exercised at the discretion of others. Both assumptions make a dangerous beginning for a defense of freedom.

Professor Nozick's troubles extend equally to his explanation of rights. He begins with the "intuition" that whatever goal we may be seeking, certain means of accomplishing it are ruled out. It is not that they don't work; it is just that they are forbidden. Nozick decides that the best explanation for this feature of ethics is that people cannot be treated wholly as means; and this in turn, he says, implies something like the Lockean system of human rights.

There are several disturbing features about this proposal, not the least of which is resting human liberty on Professor Nozick's intuition. There is, besides, Nozick's ingenuous announcement that he is not going to say whether the ban on force is absolute; or, if it is not, in what cases the ban may be lifted.

Even more importantly, though, Nozick has explicitly adopted an unhappy notion which crops up from time to time: that rights are a kind of unnatural restraint on our pursuit of values. It is as if to say: we would, of course, engage in murder and rapine as part of the good life, but as it happens these perfectly natural and effective means of achieving happiness are denied us. This is to give force a far better reputation than it deserves.

Force is not an effective means of seeking values, nor even an ineffective means; it is simply the abandonment of value-seeking. Many people recognize that in trying to obtain values by coercion one foists off on another the task of creating one's values. Many

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also recognize that in using force one abrogates the other person's judgment and control. The two points can also be brought together: that to pursue values by force is to surrender the task of creating values to a powerless man.

Finally, there is a larger objection against *Anarchy, State, and Utopia,* and it is suggested by the two already discussed. Professor Nozick's thesis, I am afraid, will become a victim of his method. Contemporary philosophy seems to insist that the most urgent possible conclusion should be grounded on the most irrelevant possible fact. Thus, rights are grounded on Professor Nozick's moral intuitions, and free government on the conceivable workings of an anarchist market. A well-touted defense of liberty, done in this style, is ideally suited to become a major reason for dismissing liberty as irrelevant to human concerns.

▶ EVERYTHING YOU NEED TO KNOW NOW ABOUT GOLD AND SILVER edited by Louis Caribini (New Rochelle, N. Y.: Arlington House, 1974) 176 pages, $8.95.

Reviewed by Robert Vichas

PERHAPS not everything, but here are plenty of facts, history, and details to aid any prudent investor in financial planning. Now that Americans can once more, after 41 years, legally own gold bullion (for how long no one can predict), petite markets for gold and silver coins and mini-bars of these enchanting metals may become as strong as horseradish.

An umbrella will go up when it rains, but a period of sunshine will bring on its collapse; and with rainmakers in Washington first seeding clouds of doom and then withdrawing from rain-dance activities, the timid, over-extended buyer may find himself whipsawed unless he has a solid grasp of long-term fundamentals.

The editor has clustered an impressive covey of writers, analysts, consultants, and economists, whose combined talents and expertise would be welcomed on any board of investment advisors, provided, of course, that the investors favor long-term purchases of gold and silver.

Caribini has wedged into one volume interviews originally conducted for the *Gold & Silver Newsletter*. In nontechnical language, nine experts deal with: the role of gold and silver in past, present, and probable future monetary systems; the possibilities of continuing inflation and total collapse of paper currency systems; how to invest in selected foreign currencies; the industrial uses of silver and gold;

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and the prospect of further recession – or will it be really tagged a depression?

Exactly what are future prospects for silver? How high will the price of gold fly? Can anyone with limited funds procure protection against a fatigued dollar? Suppose monetary collapse doesn't occur, what then? Who loses? While no book can provide daily investment advice, this interestingly written collection should find its way into any basic library on the subject.

For example, economic aspects and industrial markets for silver are covered in three separate interviews with Charles Stahl, publisher of *Green's Commodity Market Comments*, Philip Lindstrom, investment manager of Hecla Mining, and Wallace Hanson, contributing editor to *Popular Photography*.

Mr. Stahl reviews basic uses of silver and lesser known technological applicability. Did you know that silver is sometimes employed as dry lubricant, fungicide, and bactericide? And, oh yes, even rainmakers seed clouds with it – clouds that produce rain, not gloom. As they say, "Every cloud must have its silver lining."

On production matters, Mr. Lindstrom, who during 31 years has worked as mining engineer, geologist, mine operator, and investment analyst for Hecla Mining Company, conveys the real message on costs of bringing a new mine into operation – *if* one is found (given odds of 1,000-to-1 of *not* discovering a good ore body) – and some basic problems of keeping one profitably producing.

On industrial absorption of silver production, Mr. Hanson answers important questions: Is silver essential in photography? What are the prospects of developing substitute processes? No investor should neglect the answers contained in these three interviews.

Demand for these precious metals pivots partially on industrial consumption. The intriguing question focuses on monetary conditions now, next year, after the next election, and in the next decade. Professor Murray Rothbard, who has spent nearly 30 years studying business cycles, panics, depressions, and what government has been doing to our money for 200 years, reveals his findings and sees three important parallels between 1929 and today.

Similarly, Dana Thomas, associate editor of *Barron's*, offers some important clues by comparing our present situation with recent experiences of Germany, China, and others. To the question – What do you see as a reliable hedge? – this financial writer replies without hedging.

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Of course, Dr. Franz Pick, publisher of *World Currency Report*, tells us like it was, is, and will be (usually before the interviewer has completed his question). With an economy of words, Dr. Pick devastates Wall Street's sacred cows.

Another investment advisor, Thomas J. Holt, divulges how to gauge the amount of stock speculation with a simple technical device. He also speaks of gold price potential in a depression. For a bonus, Mr. Holt supplies an eyewitness account of runaway inflation in China and relates what happened to fortunes of gold and silver owners there.

Again for those concerned with technical aspects of gold production, Dr. Paul Henshaw, president of Homestake, discloses why gold production is *dropping*, in spite of record high prices.

Finally, the last two stars in this exciting cast, Hans Weber, managing director of Foreign Commerce Bank in Zurich, and Harry Browne of recent bestseller fame, offer advice on hedging assets and fashioning a portfolio geared to different investor needs.

For pleasant, informative reading, Caribini has compiled a volume that should pre-empt any evening of television. For the serious student, 18 pages of bibliography could keep one away from the tube for a month or two.

▶ CEREMONIAL CHEMISTRY: *The Ritual Persecution of Drugs, Addicts and Pushers* by Thomas Szasz (Garden City, New York: Anchor Press/Doubleday, 1974) 243 pp., $6.95.

Reviewed by Ralph Raico

THIS BOOK differs from similar books in the area by subjecting to examination, not *victims*, but the *oppressors;* the violators of individual rights, rather than those whose rights are violated. That is, it explores the *social process* by which some people are *deprived of their rights* by those who have something to gain from that deprivation. In regard to drugs – the subject of the present work – the ones who have most to gain are, clearly, the government's growing (and increasingly costly) psychiatric and social-work bureaucracy, which preys on the fears it induces in a gullible public.

The position Szasz sets forth on the issue of drugs is, in my opinion, the genuine libertarian one: "anything that's peaceful." People have a right to trade in any commodity, he maintains, including drugs, so long as no one else's rights are thereby infringed. Why this – otherwise known as *the simple system of natural liberty* –should ever have become a *problem* is the main subject of Szasz's rich book.

In the course of examining this

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question, the author continues his probing of what may be termed the "secret history" of plots against individual freedom—bringing to light little-known but highly significant episodes that have accumulated over time to form a system of oppression (he did this brilliantly once before, in *The Manufacture of Madness*). Who, for instance, will not find it, well, *suggestive* that the trade-union leader Samuel Gompers helped create the image of "Chinese opium fiend" as part of his ruthless campaign to exclude Chinese laborers from the United States?

Szasz is in no way *recommending* the use of any drug, but simply the right of adults to consume whatever they wish and can afford (he is against heroin-"maintenance" programs, too). We are not dealing here with a Timothy Leary (to anyone who knows Szasz, the very juxtaposition of the two names has to bring a smile)! Quite the contrary. In clarifying the current confusion on the subject of drugs, Szasz is entering the lists for some rather "old-fashioned" ideas: namely, that there is no "addiction," there is *temptation* (which people either withstand, and so grow stronger, or give in to, and so lead *that* kind of life); that human beings must be viewed as possessing free will, and not as bundles of automatic impulses (which means they are *responsible* for their actions); that the business of government is to protect the life, liberty, and property of its citizens from forcible invasion, and *nothing else;* that when the government strays beyond this, it itself tends to create the very problems it then harasses and taxes the people to solve.

It is gratifying but hardly surprising that, at the end of this book, Szasz explicitly identifies his own standpoint with that of "Mill, von Mises, the free market economists and their libertarian followers." "While countless men say they love liberty," he asserts, "clearly only those who, by virtue of their actions fall into [this] category mean it. The others merely want to replace a hated oppressor by a loved one – having usually themselves in mind for the job." And it is nice to be reminded that the great Mises explicitly attacked prohibitions on the sale of opium and morphine, although he viewed them as "dangerous, habit-forming drugs," on the grounds that "if one abolishes man's freedom to determine his own consumption, one takes all freedoms away" (*Human Action,* pp. 728-729). Szasz underscores Mises' point throughout this penetrating, consistently well-written and exciting book.

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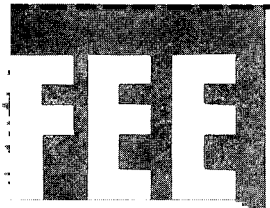

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